◆ Futures shock: The next stock market crash
◆ Thomas J. Peters on Robert Reich vs. Rambo

The Washington Monthly

MARCH 1987/$3.00

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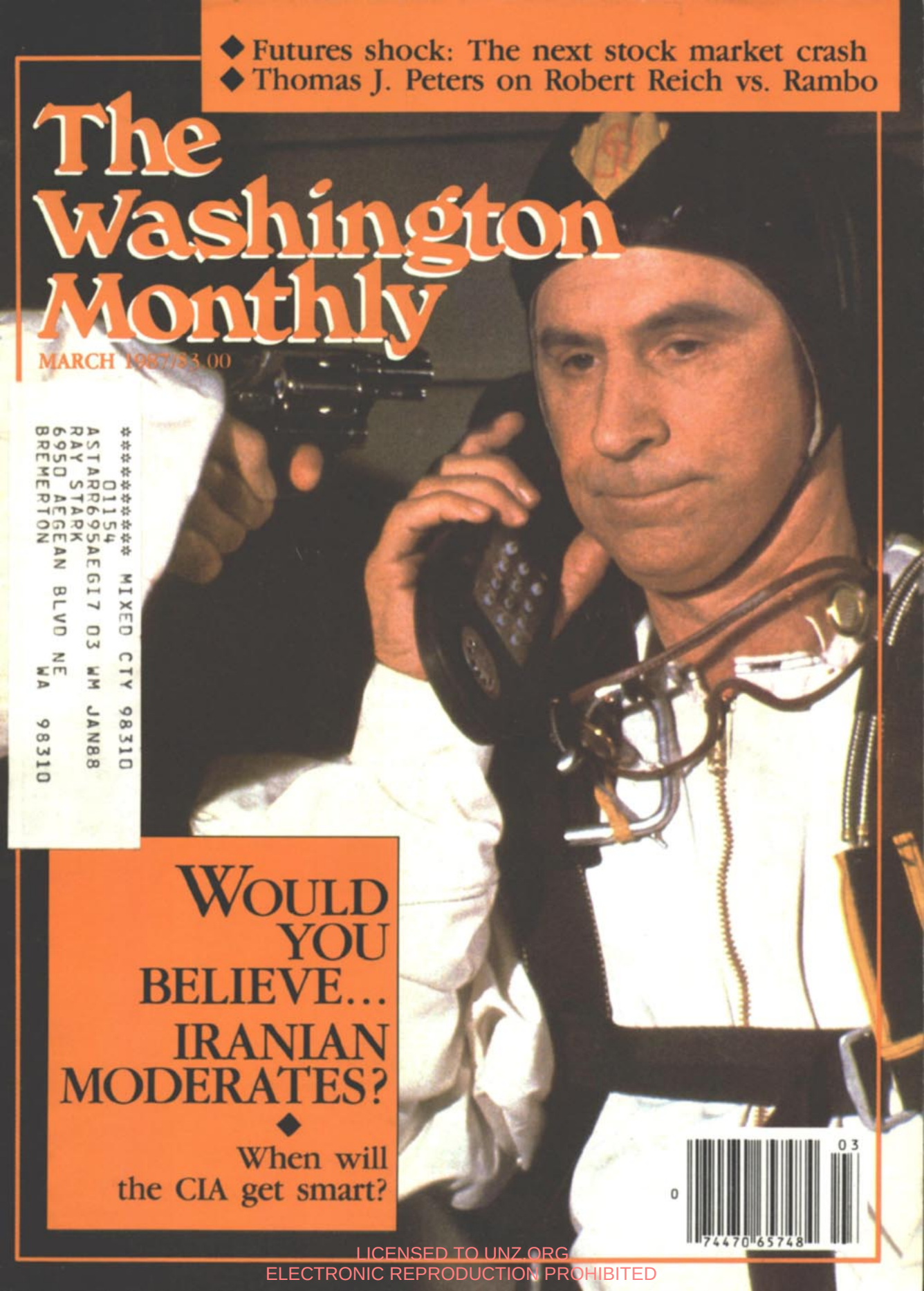

WOULD YOU BELIEVE... IRANIAN MODERATES?

◆

When will the CIA get smart?

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Issues of the Information Age:

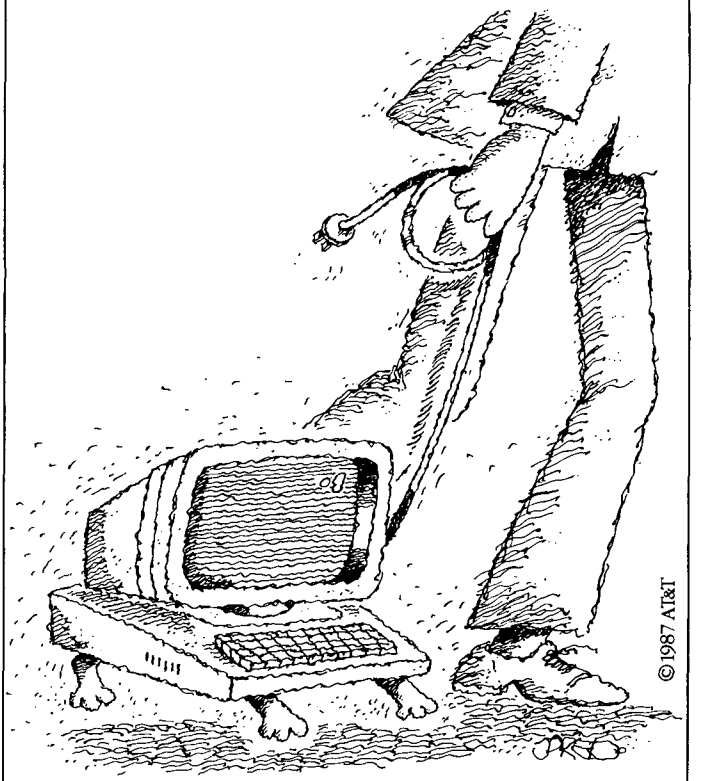
The paradox of power.

The Information Age, for all its potential, has brought with it a new kind of problem. Often, the machines that contribute so much to the flood of information do little to help most of us cope with it. They are difficult to use, rigid in their demands, almost arrogant in their inability to work with any but their own kind. They are the muscle-bound tools of specialists.

In our view, the problem is not that the machines are too powerful for the rest of us. They are not powerful enough.

This is the paradox of power: the more powerful the machine, the less power it exerts over the person using it. We define a more powerful machine as one that is more capable of bending to the will of humans, rather than having humans bend to its will. The definition is deeply ingrained in AT&T. The telephone is such a powerful device precisely because it demands so little of its user.

AT&T foresees the day when the Information Age will become universal. People everywhere will participate in a worldwide Telecommunity. They will be able to handle information in any form—conversation, data, images, text—as easily as they now make a phone call.



That day is coming closer. One example: scientists at AT&T Bell Laboratories are developing "associative" memories for computers, further enabling the machines to work with incomplete, imprecise, or even contradictory information. That's perfectly natural for a human. What makes it a breakthrough is that these computers won't ask you to be anything else.

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LETTERS

Shabby conduct

Although the reference to me as a "charity expert" will probably make my life miserable by inflating the expectations of my friends, readers, editors, etc., I am writing to praise John Wark and Gary Marx for "Faith, Hope, and Chicanery" [January], which thoroughly documents some of the more outrageous abuses of our purported charities and incisively explains the failings of the system in which they operate. The authors did make two errors, which certainly did not detract from the value of their article, but which I feel should be pointed out.

First, Walter F. Mondale conducted his investigation of children's charities during the seventies, not the sixties. It was in 1960 that Mondale, then attorney general of Minnesota, exposed the Sister Kenny Institute fraud, and was instrumental in bringing its perpetrators to justice.

In my view, the fact that the Mondale hearings occurred in the middle and wake of Watergate fully explains why Mr. Mondale found little media or grassroots interest in federal charity legislation at the time. It would be wrong to conclude that contributors do not want to be told at the time of solicitation how their charity dollars are being spent. I am convinced they do, and are beginning to feel insulted that charities believe contributors are too stupid to understand that kind of information.

Second, the last name of Father Guido John Carcich, mastermind of the Pallotine Fathers scam, was spelled incorrectly.

The awful truth about our charity system is that it has inspired shabby conduct by the most well-meaning people and most respected organizations. The root of the problem is the same as that of the Iranian-contra scandal—secrecy and lack of accountability.

HARVEY KATZ
Washington, D.C.

I had to laugh when I read in "Faith, Hope, and Chicanery" that the IRS doesn't monitor charities' tax returns because its Employee Plans and Exempt Organizations Division is underfunded. That very day, I had responded to an IRS letter asking why a client of mine assigned its Blue Cross plan a three-digit number beginning with 0 instead of with the appropriate 5. That doesn't strike me as an underfunded organization.

JAMES M. BURRESS
Middletown, Rhode Island

The problem with excerpts

Robert Reich argues that the hierarchical organization of work is flawed, and that worker-owned firms are inherently more efficient ["Enterprise and Double Cross," January]. Why, then, have we not seen the gradual displacement of hierarchy by this allegedly superior mode of organizing? True, there are many instances where inefficient organizations persist because of political or market power; but worker ownership is not a new idea, and the fact that it has never emerged as the dominant mode of production strongly suggests that its inefficiencies more than outweigh its potential advantages.

In any event, how to choose among competing organizational forms has recently gained renewed attention among some economists and political theorists, from whom Reich borrows heavily for his analysis. Had he attended more diligently to the arguments advanced by Oliver Williamson, Gary Becker, and Thomas Schelling, for example, his article would have been substantially enriched. It is these authors, after all, who have explored the importance of opportunism, investments in worker training, and trust in the efficient organization of economic transactions. Reich should have cited them, and should have at least mentioned in passing that their formal theoretical and empirical investigations lead to a somewhat less optimistic view about the virtues of worker ownership.

HENRY GLICK
Philadelphia, Pennsylvania
MICHAEL J. FEUER
Washington, D.C.

Robert Reich replies:

"If worker ownership is such a good idea, why isn't it here already?" Glick and Feuer ask the rhetorical question that conservatives and free-marketers love to ask and which, taken to its logical conclusion, always points to the futility of reform. The reason we don't have more worker ownership, as I tried to suggest in the article, is that the market, as presently constituted, fails to reward trusting behavior and thus fails to reward changes in the structure of corporations that might induce more collaborative activity. Something else is needed.

I am well aware of the microeconomists to whom Glick and Feuer refer. They begin, as do most microeconomists, from premises different than mine. They take individuals' utility functions as given, and then ask how organizational incentives can be arranged to maximize positive trades and minimize exploitation. I assume that utility functions are the products of social life, of culture, and thus shift in reponse to changes in culture. I ask how different organizational environments—different cultures—can bring individual utility functions into better line.

My article in *The Washington Monthly* is an excerpt from my upcoming book, *Tales of a New America*, to be published in late March. When Glick and Feuer buy the book (as I'm sure they will, as I heartily urge all readers to) they'll find several chapters devoted to answering their questions in greater detail, coupled with marvelously insightful additional analyses, and many wonderful footnotes and citations.

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Danger on the deck

I'm writing to point out what I believe was an inaccurate statement in Charles Peters's November column that John Lehman never risked his life for his country. It's my understanding that he is a Naval aviator and a reserve aircrewman on the A-6, an attack plane that operates from aircraft carriers. Carrier aviation is not the safest business in the world due to the complexity of the machinery involved, the weather, and a number of other factors. The A-6 itself was designed to fly low to the ground at night and in bad weather to reach its targets. Its nose is filled with 20-year-old electronic systems and if one of these fails while flying just above the treetops the plane can crash.

Normal peacetime flying around on and off a ship also leaves little margin for error.

RANDALL A. MAYS
Vienna, Virginia

Charles Peters replies:
Landing on a carrier deck does take courage. I apologize to John Lehman.

Pitching pillars

You do your fine publication a disservice in your unsupported praise of Speaker Jim Wright's proposal ["Tilting at Windmills," January] that the top tax rate be kept at 38.5 percent after this year. After years of effort, the United States has fundamental tax reform, and before it even takes effect, you are proposing to knock out the pillar of that reform.

The 28 percent rate was key to the decision to tax all income alike, rather than to tax income earned from capital less than income earned from labor. Any decision to return to higher marginal rates will almost surely bring new efforts to tax capital gains less, which will in turn generate afresh schemes to convert income into capital gains (aka tax shelters). High marginal rates created enormous incentives to pervert the tax system in favor of special interests, and generated many of the worst features of our political system. Do you favor those as well?

How progressive should the tax system be? Before you urge a specific implementation of tax policy, you owe your readers an explanation of the degree of progressivity you feel is appropriate. The tax reform maintains the distribution of burden across income classes by eliminating primarily deductions and adjustments useful to upper income classes. Retaining the 38.5 percent rate implies a decision to significantly increase the tax burden on those classes. This may be proper, but doing so involves complex trade-offs between efficiency and equity. We rely upon the political process to make those trade-offs, and it did. We should revisit those trade-offs when we have experience with the new law, and try not to reopen such a complex decision piecemeal.

WILLIAM J. RADUCHEL
Norwalk, Connecticut

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EMINAR SCHEDULE

Monday, May 4

8:30-10:15 a.m.

TR111 Devising the Best Campaign Strategy
TR211 Building a Budget & Finance Plan
TR311 Strategy, Theme & Message
TR411 Selecting the Right Mix of Computer Systems/Services
TR511 Managing a Consulting Firm

10:30 a.m.-12:15 p.m.

TR112 Campaign Planning
TR212 Assembling a Finance Committee
TR312 Speechwriting & Modular Speeches
TR412 Demographic Database Targeting
TR512 Uncovering Consulting Opportunities

1:30-3:30 p.m.

PD001 The Race for the Presidency: The 1988 Election

3:45-5:30 p.m.

TR113 Scheduling & Advance
TR213 Demographic Analysis by Income
TR313 Designing Campaign Literature
TR413 Managing Your Computer Operations
TR513 Turning Prospects into Sales

Tuesday, May 5

8:30-10:15 a.m.

TR121 Management & Decision Making
TR221 Grass-Roots Techniques and Telemarketing
TR321 Field Organization: Communicating Your Message
TR421 Automated Phone Banks & Telemarketing
TR521 The Political-Consulting Marketplace

10:30 a.m.-12:15 p.m.

TR122 Opposition Research & Strategy
TR222 List Selection & Development
TR322 Defining & Shaping Media Relations
TR422 Electoral Database Development
TR522 Working with Unions & Associations

1:30-3:30 p.m.

PD002 How to Raise More Money Than You Ever Thought Possible

3:45-5:30 p.m.

TR123 Finance Strategy & Planning
TR223 Direct-Mail Fund-Raising
TR323 Developing a Media Budget
TR423 Financing Your Computer System
TR523 Finance & Balance Sheets: Improving the Bottom Line

Wednesday, May 6

8:30-10:15 a.m.

TR151 Identifying the Grass Roots & GOTV
TR251 Borrowing Money
TR351 Media Creativity: Designing Something New
TR451 Computers & Politics: The Future
TR551 Building a Legislative Action Program

10:30 a.m.-12:15 p.m.

TR152 Using Polling to Shape Your Message
TR252 Fund-Raising by Telephone
TR352 Integrating Polling & Media
TR452 Maximizing Turnout with Computers
TR552 FEC Law: Working Within the Boundaries

1:30-3:30 p.m.

PD005 Power Polling: Sophisticated Techniques To Understand Voters

3:45-5:30 p.m.

TR153 The Hows and Whys of Polling
TR253 Using Polls to Increase Your Fund-Raising
TR353 Focus Groups and Tracking Your Message
TR453 Polling Using Spreadsheet Programs
TR553 Evaluating Candidates & Campaigns

Thursday, May 7

8:30-10:15 a.m.

TR141 How Computers Can Improve Your Campaign
TR241 PAC Solicitation
TR341 Choosing a Media Consultant
TR441 Maximizing Computer Link-Ups (Networking)
TR541 Forming and Operating A Successful PAC

10:30 a.m.-12:15 p.m.

TR142 Running a Low-Budget Campaign
TR242 PAC Services: In-Kind Contributions
TR342 Media Coaching: Making the Best Impression
TR442 Choosing the Right Campaign Software
TR542 In-Kind Contribution Opportunities

1:30-3:30 p.m.

PD004 What Works in Political Advertising

3:45-5:30 p.m.

TR143 Creating Successful Commercials
TR243 Fund-Raising Gimmicks & Special Events
TR343 Devising a Media Strategy
TR443 Computerized Opposition Research
TR543 Multiplying PAC Memberships

Friday, May 8

8:30-10:15 a.m.

TR131 Direct-Mail Overview
TR231 Personal-Solicitation Techniques
TR331 Mail as Medium: Voter Contact
TR431 Computerized Tracking Polling
TR531 Off-Year Blues: Dealing With the Down-Time

10:30 a.m.-12:15 p.m.

TR132 Voter Analysis & Targeting
TR232 Direct-Mail Targeting
TR332 More Bang for Your Buck: Maximizing Radio
TR432 In-House Direct-Mail Production
TR532 Initiative & Referendum Campaigns

1:30-3:30 p.m.

PD003 Coexisting and Cooperating With the Press

3:45-5:30 p.m.

TR133 Cultivating Successful PAC Relations
TR233 Raising Big Money: High-Donor Fund-Raising
TR333 Utilizing the Print Medium
TR433 Computerized Media Buying & Press Management
TR533 Getting Good (Free) Press For Your Firm

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Cover Photo: Don Adams as Maxwell Smart in the Universal Pictures' release, "The Nude Bomb."

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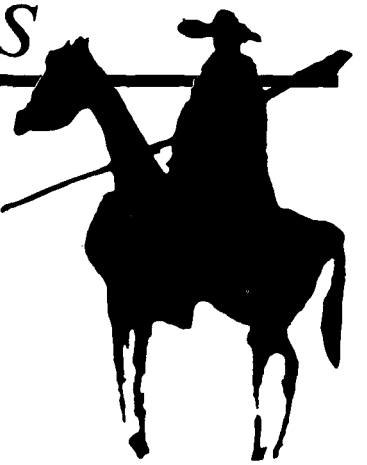
TILTING AT WINDMILLS



The licensing game is one of the great modern American rackets. Groups of so-called professionals get together, hire lobbyists, and persuade a legislature to let them control admission to their own profession. It's a great way to prevent unwanted competition, thereby permitting the original licensees, the guys who hired those lobbyists, to control the market and set prices. The most recent triumph of the licensing movement came last fall when the District of Columbia city council passed legislation prohibiting individuals without a license from practicing interior design or calling themselves interior designers. Alabama, Connecticut, and Louisiana have been restricting the use of the title of interior designer, but the District is the first to prohibit unlicensed people from working as designers. Will someone please tell me what public interest this will possibly protect? The next step will surely be to license artists. Got a license for that easel, pal? No? Too bad. Gonna cost you an extra 20 bucks for painting at night. By the way, fella, you ought to see a doctor about that ear....

What do Admiral Poindexter and Colonel North do all day? According to *The Washington Times*, they spend most of their time working on their legal defenses. Yet they are supposedly assigned to regular full-time jobs in their respective services, Poindexter as a "special assistant" and North as a "service planning and policy officer." One can't help suspecting that there are a good many other jobs in the military like theirs, where full-time means a couple of hours a day of passing around memos, with the rest of the time free for other pursuits, such as shooting the breeze, reading the paper, or taking care of one's private affairs. A few years ago Mike Causey of *The Washington Post* got together a similar list of titles in the civilian bureaucracy that seemed to promise a relaxed time at the office. Among them were Social Priorities Specialist, Schemes Routing Specialist, Suggestion Awards Administrator, Fringe Benefit Specialist, and Confidential Assistant to the Confidential Assistant....

"Derailing on the Fast Track" was the title of a recent article in *The Washington Post* about the way to get a career off to the wrong start:

"Even a newcomer to the job often realizes it is politics, not performance that makes the key difference at promotion time. One of the most common political mistakes is going over your boss's head to a higher-up, whether to complain or simply to communicate an idea. Most supervisors jealously guard their relationship with upper management and will feel threatened by a subordinate moving in on it. It is wise to respect this 'chain of command' at all times."

This advice is probably sound most of the time in most organizations for people whose main aim is to get promoted. The catch is that

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it may be disastrous to the integrity of the employee and to the well-being of his organization. And if he happens to work for the government, it could be disastrous for the nation. When you see something that is seriously wrong—like an O-ring that may fail at a crucial time—you have an obligation to yourself and to your employer to speak up. It may cost you your job, but a life you end up being proud of is not going to be one that was free of risk and pain....

The cost of doing right can, of course, be maddening. Take the case of W.G. Burnette, the president of DeVille Aluminum Products, which was the low bidder in 1983 for a contract to put screens on 214 houses at the Quantico marine base. When Burnette visited the site, he saw that the windows had screens. A few that were damaged or missing needed to be replaced, but the cost would be slight. So he sent back, unsigned, the contract for $16,143 he had been awarded and told the Defense Department he could do the job for $200.

The next month, he found another contract for the same job in his mail, this one for $22,320. Obviously, thinking they must be crazy, he sent it back unsigned, too.

Then the government sued him for $1,215.89 because it had to hire another contractor to do the job....

The American Medical Association recently announced that in order to "symbolize its own commitment" to fighting unqualified doctors, it will begin expelling any of its 280,000 members who have "engaged in serious misconduct or been found to be incompetent." That's right. This is a *new* policy....

The Defense Department, in its zeal to spend our money, has adopted a policy that might be called "Buy Now, Test Later," in which large numbers of widgets and gizmos are ordered before anyone has bothered to find out if they will work. The B-1 bomber and the Bradley Fighting Vehicle testify to the wisdom of this approach to procurement.

We have now built 31 of the 100 B-1 bombers that we planned. We had conducted some tests on the B-1A, but before the B-1B was built, 41 tons were added to the plane's weight, and several new systems were added without testing, on the assumption that aerodynamic and flight-simulator data from the original test would still apply. Unfortunately this assumption proved a bit sanguine. Now we find that in tests of B-1Bs, critical problems have occurred. According to *The Washington Post*, the bomber "pitched up and down across the sky in aerial refueling tests, making operations virtually impossible." The aircraft is also unable to achieve its anticipated capabilities for angle of attack and stability in flight. And, according to *The Washington Times*, there are reports that the plane cannot fly above 20,000 feet, which makes it inferior in that respect to the B-29 of World War II, and that its defective radar-jamming equipment will take two years and $500 million to fix.

The Air Force has requested that testing of the B-1B be extended for 44 additional months. Unfortunately the last of the 100 bombers will be delivered in April of 1988.

About 2,500 of the 6,800 Bradleys that are scheduled to be built have already been delivered, and 5,000 will have been produced before the Army has completed testing whether they can survive attack by anti-armor weapons. One test, last October, showed that the Bradley was, in the words of the General Accounting Office, "highly vulnerable to all anti-armor weapons... and ammunition stored inside the vehicle, when hit, was likely to be the major source

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of crew casualties and catastrophic vehicle losses."

The Army has modified the vehicle in an attempt to meet these problems, but whether it has been successful is not known because tests will not be resumed until the middle of this year. Meanwhile, production continues full-blast.

The Bradley is supposed to ford the rivers of Western Europe, but it has shown a regrettable tendency to take on water far beyond the capacity of its pumps to discharge. This is so even when it is tested in a flat pond. Rep. John Dingell has suggested that it be tested crossing the Detroit River on a cold winter day. The Army has not responded.

I would not care to be one of the soldiers included in this exercise. There's still uncertainty about whether they should wear seat belts and sit down or life jackets and stand up in the open hatch. There is a question as to whether there is room enough for everyone in the hatch if they have life jackets on. The manufacturer recommends that the soldiers ride on top of the vehicle as they cross streams. This suggestion will undoubtedly receive warm support from the Association of Soviet Snipers.

The instructions for the safe operation of the Bradley are likely to give pause to anyone who is acquainted with Murphy's Law and the Army's outstanding record for applying it day in and day out over the years. For example, one instruction now reads: "An inadequately engaged fitting could strip out of the Tripod leg and allow the water barrier to collapse and the vehicle to sink. This is essential information."...

While I continue to support very tough sentences, meaning 20 years or more, for cold-blooded violent criminals who are likely to repeat their misdeeds, I hope Mario Cuomo will reconsider and pardon Jean Harris, not because she is a celebrity, but because the crime she committed was a hot-blooded one. There is no danger it will be repeated, so there is no need to protect society from her or others like her. Some punishment was necessary, but isn't five years in prison enough for crimes between lovers and family members where in many cases the remorse of the perpetrator is itself severe punishment?...

Those television game shows, like "Wheel of Fortune," where you can win fancy cars, fur coats, and trips to exotic places are very hot. Everyone wants to get on and win. In case you get the fever, a word of caution: your winnings will be taxed on the basis of the manufacturer's suggested retail price.

Suppose you win a yacht, but you live in Little Rock and can't use it. You're going to have a hard time finding another buyer in Arkansas, and, when you do, it is unlikely he will pay list price. If the game shows really want to do right by their contestants, they should give each winner an extra spin of the wheel, with the prize this time being a check to pay the taxes....

If you thought the Me Decade was over, consider this radio commercial sponsored by the American Floral Marketing Council: "Give Flowers to Someone Special—You."...

Some day a great lawyer is going to break through the wall of judicial indifference to the harm caused by cigarettes and nail the tobacco companies with a judgment that will make them tremble with fear of the floodgate it will open: for every cigarette victim, a law suit; for every suit, a verdict of a million dollars or more.

An example of the legal skill that is needed to bring this about was recently provided by the lawyer for a Mississippi plaintiff who, when confronted with the tobacco company's traditional defense that the victim had not exercised due care in starting to smoke and had assumed the risk of the

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results, asked American Brands, Inc., the parent company of American Tobacco, to explain "the specific factual consequences of cigarette smoking which you contend could require an ordinarily prudent person not to smoke."

In other words, if American Brands was going to prove that the plaintiff was at fault for not knowing the consequences of smoking, it had to admit that it knew what those consequences were and was also at least equally at fault. Since Mississippi law permits a plaintiff to win in such a case, American Brands didn't take long to withdraw its defense. But in so doing it may have left itself defenseless and could very well turn out to be the first tobacco company to lose one of these suits.

I'm telling you about this because *The Washington Post*, in its crusading zeal for the consumer, placed this important story by one of its best reporters, Morton Mintz, on page K-2, where it was sure to have been seen only by those dedicated readers who plow their way through every section of the paper, including the obituaries and want ads.

The article also described an interesting videotaped deposition by Robert K. Heimann, who retired in 1980 as chairman and chief executive officer of American Brands. According to Mintz, Heimann said that he "could not recall the board of directors ever discussing the issue of smoking and health."...

Elsewhere in this issue I apologize to John Lehman for having called him a "gutless" hawk—it usually turns out that the harsh word is the wrong word, doesn't it—so I wish I didn't have to criticize him again. But I do, this time for persuading Caspar Weinberger to ask Congress for funds to build two more nuclear-powered aircraft carriers. We just launched another of these giant sitting ducks, the *Theodore Roosevelt*, and are building two more, the *Abraham Lincoln* and the *George Washington*, at a cost of $3.4 billion each, every dollar of which will be lost when they are sunk on the first day of any serious war.

Lehman is also allowing the star Navy basketball player, David Robinson, to evade his obligation of five years of active duty so that he can play pro basketball. The reason Lehman gave for the action is that Robinson "is not physically qualified for unrestricted line officer in the United States Navy." Not physically qualified? He is an outstanding athlete. The fact that he's seven feet tall may mean there is a submarine or two he can't serve on, but surely there are enough jobs in the Navy he could perform over the five years to repay the country for the free education it gave him at Annapolis. Nothing is more destructive of military morale than blatant favoritism, and Lehman has been guilty of it in the case of both Robinson and Napoleon McCallum (see "Tilting," November)....

Have you read OMB's reason for cutting federal money for distribution of

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surplus food to the poor? It's to provide money for pay increases for the civil service. This is further evidence of the 20-year trend in this country toward reducing government services, such as street paving and library hours, in order to give higher salaries to government employees. As this magazine has repeatedly pointed out, sometimes these increases have been justified, but far too often they are given to employees who are already overpaid, adequately paid, or not needed....

When I lived in West Virginia, Consolidation Coal was a company you loved to hate: indifferent to its workers, it was known for having its way with legislators and other public officials. Its reputation has improved in recent years, but Bryan Burrough and Seth H. Lubove of *The Wall Street Journal* recently discovered that Consol, as it is known in mining country, was up to a new version of some of its old tricks.

It was part of a larger story about how companies throughout the country, knowing that OSHA did not inspect plants with good safety records, would conceal accidents and injuries to keep their slates clean.

Last fall, for example, Consol officials arrived in a black limousine at the office of James McDonald, the Buchanan County, Virginia, medical examiner. He had said that a local employee, Bruce Ballard, had been electrocuted in a mine accident.

"It was obvious they would have liked the cause of death to be something other than an electrocution," McDonald told the *Journal*. And even though McDonald stood by his opinion, in which, by the way, the only other doctor to examine Ballard's body concurred, Consol, according to the article, "ultimately convinced a federal agency that Mr. Ballard died of causes unrelated to coal mining."

OSHA's policy of not inspecting the plants with clean records invites this kind of deception. I am happy to report that it is now changing the policy to require inspection of one plant in ten, regardless of how good its record might be. If its choice of plant is perceived by industry as being truly random, this may be enough to keep people honest. As the IRS learned back in the days when it was efficient, you don't have to actually audit people to keep them honest, you just have to keep them convinced that they might be audited and that there are no tricks by which they can avoid it....

A comparison of the case of James Brady and that of children of disabled parents provides an excellent example of the way Reagan Republicans think. The White House has kept Brady on the payroll at a salary of $77,000 while it has reduced benefits to the children. They know Brady; therefore they want to help him. They don't know the children and therefore don't care about them or imagine they are welfare cheats....

Erwin Knoll, the editor of *The Progressive*, devoted his January column to attacking Timothy Noah's article [November, 1986] advocating national service. Knoll contends, among other things, that when John F. Kennedy said, "Ask not what your country can do for you, ask what you can do for your country," he was "articulating the essence of fascism." In support of his point, Knoll quotes a remark similar to Kennedy's by a Mussolini henchman.

But national service in a fascist dictatorship is not what Noah is talking about; he supports national service in a democratic country where everyone doing the serving will have a voice in determining the nature and the purpose of the service, or whether to have it at all....

I can remember when I was a boy hearing my mother say she just wasn't any good at ironing, as she sent my father's suits and shirts off to the cleaners. I felt sorry for her, thinking the poor woman was embarrassed at her lack of skill. I did, that is, until in the process of trying to get through Columbia on the G.I. Bill, I decided I would have to iron my own shirts. A couple of steamy afternoons laboring over the ironing board told me exactly why mother decided she couldn't iron. It was miserable work, and she didn't want any part of it.

While the parallel is less than exact I cannot help thinking of her when I hear Washingtonians say, "We just can't cope with the snow." The result of this incapacity means that the streets are impassable—and everyone gets the day off....

—*Charles Peters*

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Six years ago, C. Everett Koop was loved by conservatives and vilified by liberals. Now it's the other way around.

WARNING: THE SURGEON GENERAL MAY BE GOOD FOR YOUR HEALTH

by Paul Glastris

In 1977 C. Everett Koop, an anti-abortion activist who believes so passionately in "the sanctity of life" that a colleague once said "he would ventilate an amoeba," faced an excruciating choice. A set of Siamese twins had been brought into Philadelphia's Children's Hospital, where Koop was chief of surgery. The twins were joined at the chest, sharing one-and-a-half hearts, which could support only one child. The choice was between doing nothing and having two deaths, or, through surgical separation, killing one so the other might live.

Koop waited 11 days as the girls' parents, from a deeply religious Orthodox Jewish family, discussed the issue with rabbinical scholars for hours each day before making a decision. For Koop the decision was easy. "It took me about ten minutes after I knew all the facts to make up my mind about what should be done," Koop recalls. He recommended surgery. When it came time to tie off the carotid artery feeding the brain of the infant who would die, Koop, zealous defender of infants and the unborn, did the job himself.

A decade later, Koop, now surgeon general of the U.S. Public Health Service, made another remarkable medical decision. Last October 23, he released his now-famous report on AIDS. Some had feared that the intensely religious Koop might use the occasion to moralize about the disease's wicked causes. Even the most knowledgeable outside observers had expected the kind of vague and euphemistic warnings about AIDS that Health and Human Services (HHS), under its conservative management, had been offering. Instead, Koop was compassionate and extremely frank. "It is time to put self-defeating attitudes aside," Koop announced at the news conference that day, "and recognize that we are fighting a disease, not people." Without embarrassment, he advocated the use of condoms. He denounced ideas, popular among many of his conservative friends, about quarantining AIDS victims. Most shocking of all, he called for an intensive program of sex education, beginning "at the lowest grade possible."

Conservatives were furious. They had sup-

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ported Koop for surgeon general in 1981 over the fierce opposition of liberals, believing that his strong conservative views would guarantee a politically correct public health policy. Now they felt betrayed. The *Washington Times* called for him to shape up or resign. Reagan administration officials in the Department of Education protested elements of Koop's call for sex eduction. "The very people who supported me in my tough times of '81," Koop says, "are the people who don't seem to understand what I'm trying to say."

Today it is the liberals who appreciate what Koop has to say. Somehow, the integrity of the man—his willingness to make the medically correct decision, not the politically correct one—had eluded them in 1981. Back then, he seemed a right-wing crank, an intolerant right-to-lifer whose reactionary views on abortion, homosexuality, and religion made him incapable of serving the larger public interest. Now, Senator Ted Kennedy, who led the Senate opposition to Koop's appointment, applauds Koop's activities on AIDS and his vigorous campaign against both smoking and cigarette companies. And Rep. Henry Waxman, Koop's most bitter enemy on Capitol Hill in 1981, is now his biggest fan. "I just have the very highest regard for Dr. Koop," says Waxman. "He's a man of tremendous integrity. He's done everything a surgeon general should do, and more, to protect the health of the public."

House arrest

Koop came to Washington in 1981 with the reputation of being one of the finest pediatric surgeons in the world, but it was as an anti-abortion crusader that he was best known. He had sat on the boards of three national right-to-life groups and was one of the movement's major theorists. In a series of books and articles he wrote in the seventies, Koop propounded the theory that society's tolerance of abortion leads directly to tolerance of infanticide and euthanasia, first of congenitally deformed infants and the consenting terminally ill, then of babies with the wrong skin color or the elderly who have become too much of a drain on the pension fund.

In the late seventies, Koop toured the country with a lavish multimedia show he co-wrote, narrated, and starred in. The show's centerpiece was the film series, "What Ever Happened to the Human Race?" Shot on 50 locations in five countries at a cost of $1 million, the film is particularly famous for a scene in which a thousand black and white dolls lie scattered on the salt wastes of the Dead Sea, a gruesome representation of the six million abortions said to have been performed in the U.S. since the 1973 Supreme Court ruling legalized the practice.

To the right-to-life movement, Koop was a hero and a chip they wanted cashed in when Ronald Reagan took office in 1981. In February of that year the administration slipped him into HHS as deputy assistant secretary of health, a job that doesn't require Senate confirmation, with the idea of bumping him up to surgeon general as soon as possible.

The surgeon general's post carries little statutory authority. Koop would be largely held on a leash by his superior, the cautious, conservative assistant secretary of health, Dr. Edward N. Brandt Jr. The sharp-eyed in Washington saw this as an early sign of the new administration's strategy of placating the far right while steering a more moderate course on social issues. But Democrats, already panicked over the prospect of Jesse Helms loose in a Republican-controlled Senate and an anti-abortion president in the White House, were not relieved. The surgeon general's office carried the weight of medical authority, and they feared C. Everett Koop would use that position to lead a crusade against abortion.

The new Republican Senate, everyone knew, would almost surely support Koop's nomination. A small problem, however, stood in the way. Being a few months past his 64th birthday, Koop was technically several months too old for the job. Jesse Helms tried to remove this potential snag with an amendment changing the age restriction, which he attached to legislation on credit cards already approved by the House. The Senate approved the change after Helms misinformed them that the House had no objections. His effort to bypass the House backfired, however, when Speaker Tip O'Neill, angry at the slight and sensing a prime opportunity to embarrass the administration, used an obscure parliamentary rule to send the credit card bill to the House health subcommittee, chaired by liberal pro-choicer Rep. Henry Waxman.

Republicans on the subcommittee tried to limit the discussion to the age issue; Waxman and the Democrats, however, proceeded to conduct a de facto confirmation hearing. Koop, with strong advice from his superiors, refused to testify, on the grounds that the House was usurping a Senate responsibility. So Koop's writings and past statements were allowed to speak for him. At a

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right-to-life seminar in 1979, for example, Koop had referred to the "women's lib movement" and the "gay pride movement" as propelling "anti-family trends," comments women's and gay rights groups pointed to as evidence Koop would discriminate against them and decimate abortion-related medical programs. In an article used by Waxman to show Koop's intolerance, the surgeon had written, "Sadly, most mainline denominations have made pro-abortion statements illustrating their superficial theology, lack of morality, and insensitivity to the eventual reward for their own depravity."

The document that spurred liberals to nickname the surgeon "Dr. Kook" was a 1979 commencement address in which Koop pretended it was 1999. "Secular Humanism" had become the official state anti-religion; "Doctrine Squads" snooped on people and hauled them off to be punished for "speaking of the Lord"; rampant infanticide had resulted in a generation of young people who were "perfect specimens—no defects, no eyeglasses. . . [and] a preponderance of boys"; talk of "death with dignity" and "living wills" in the seventies had been "the thin wedge" that cracked open American morality and led to compulsory euthanasia for the old and infirm; something called the "Rockhead Foundation" supported the culturing of "100,000 homosexual and lesbian test-tube babies to give the gay movement more political clout."

It's easy to see why liberals regarded Koop as a mean-spirited nut. That was not their only line of attack, though. Just as important, they claimed, was his lack of "significant" public health experience. The American Public Health Association (APHA) testified that there was an important difference between providing preventive health care for large populations, the role of public health professionals, and treating sick individuals, which is the role of most of the rest of medicine, surgeons included.

The *New York Times*, along with a dozen other major liberal newspapers, and an army of powerful liberal groups—from Big Labor to the National Organization of Women—joined the opposition. Wavering legislators would have been foolish to cross the picket line. It was eight months before Koop, eventually allowed to testify, could win Senate confirmation. "He does not have a public health background. He's dogmatically denounced those who disagree with him, and his intemperate views make me wonder about his, and this administration's, judgment," Rep. Waxman said, summing up the liberal consensus. "Dr. Koop frightens me."

An academic bully

One afternoon in November 1986, Surgeon General Koop woke up from a nap in a friend's house in San Antonio to find himself "essentially quadriplegic." He tested his hands; they wouldn't move. With some effort, he rolled himself to the edge of the bed. He struggled to his feet. He tried to walk, he recalls, but "it felt like I had cement boots on." He knew what was happening. He had been expecting it for years.

A large man—six feet one, 206 pounds—he had hung his head over the tiny bodies of some 100,000 patients in the course of his 35 years as a pediatric surgeon. Shoulders scrunched, elbows in, sometimes for hours, his large hands working through miniature incisions (repairing a newborn's esophagus, Koop says, is like "sewing together two pieces of spaghetti at the bottom of an ice cream cone"), he had subjected a vertebra in his neck, already fractured in a college ski jumping accident, to "about 12 pounds of constant traction." Over the years, bone spurs had shrunk the hole through which the spinal cord, and its attendant artery, pass. During his nap, his head had slipped off a small rubber orthopedic pillow, twisting his neck and pinching off the artery.

Surgeons were able to repair the damage. Except for a numb patch on his hand, he is back to normal. The career that caused this disability began in the forties when there were only five other pediatric surgical specialists in the country and the notion of anesthetizing and operating on children was considered wildly risky. For 33 years he ruled over the Children's Hospital of Philadelphia as surgeon-in-chief. He and the staff he recruited had pioneered surgical procedures for congenitally deformed infants. In 1962 they had built the country's first neonatal surgical intensive care unit.

Despite APHA's contention that he had no "significant" public health experience, Koop had worked much of his professional career as a volunteer consultant and organizer of Third World health efforts. For 20 years he had sat on the board of a private medical relief agency, MAP International, that distributed medicines and sanitary and water supplies to 83 countries. He created an organization that sent hundreds of third-year medical students to bush hospitals in remote parts of the world. He helped build a medical school in Ghana, fight a dysentery epidemic in the Dominican Republic, and bring primary medical care to the Tarascan Indians of southwestern Mexico. (None of this impressed

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APHA.)

Most of Koop's associates tolerated the arrogance that came with Koop's compassion. They greatly admired him, but his bellicose style led to incidents of cruel insensitivity. He once encountered a woman at a party holding an infant. "Thanks for not having an abortion," Koop told the woman. The child was not hers, and she had had an abortion. Robert Kettrick, senior anesthesiologist at Children's, who assisted Koop hundreds of times in the operating room, says this arrogance results in part from "too many years in the university." His rhetorical combativeness is typical of academics, explains Kettrick, "but in Chick Koop's case, it came with a desire to then demonstrate his mastery of the subject and the dominance of his logic. He likes to play academic bully, as if to say, 'I'm right, I've studied the issue, I know the standard retorts and where all the weak spots are in your arguments, and I'm going to beat you up.' "

As a surgeon, Koop's skills were universally respected. Indeed, at times during his career, Koop has been accused of saving too many lives, including those of children with birth defects, on whom other surgeons couldn't—or, for the sake of the children, wouldn't—operate. "I believe there are times nature has made a mistake and nature should be allowed to correct that mistake," says Dr. Audrey Evans, head oncologist at Philadelphia's Children's Hospital. "There are some children born with such severe defects that they will never be useful citizens in society," she explains. To Koop, to allow such "quality of life" concerns into the medical decision process not only defies the word of God but is—like abortion—a first step onto the slippery slope of the kind of utilitarian ethics that led to Nazi death camps.

It would be hard to exaggerate the strength of Koop's conviction on these matters. It arose in part from his work. "[N]o family has ever come up to me and said: 'Why did you work so hard to save the life of my child?' " Koop wrote. "And no grown child has ever come back to ask me why, either." But it is also a matter of religious faith. For more than 30 years Koop had been a member of Philadelphia's conservative, evangelical 10th Presbyterian Church.

But those who worked with him say his insistence on preserving life when possible was always tempered with reason. "Chick Koop didn't try to extend a life at any cost," says Kettrick. "He knew when to give up. I never had the agonizing deaths with his patients that I did with patients of some other surgeons. I never saw him pushing life at any cost or for any cause."

For the first few years of his tenure, Koop gave little reason for his critics to think they'd been wrong. He raised some eyebrows by donning the uniform of the Public Health Service, the first surgeon general to do so regularly in years. True, only a few months after his confirmation, Koop came out with his first surgeon general's report on smoking, which *The New York Times* described as "one of the strongest indictments of cigarettes since the landmark federal report on smoking 18 years ago." But a surgeon general warning that cigarette smoking is harmful to your health was not exactly breaking new ground.

Then, in 1982, there was the troubling Baby Doe case, which hinted that Koop's right-to-life dogmatism would guide his thinking as surgeon general. Though doctors could do nothing about the newborn infant's Downs Syndrom and its inevitable mental retardation, they could correct life-threatening problems such as an underdeveloped esophagus. On the advice of one physician, and over the objections of two others, the parents decided to forgo treatment. The nursing staff rebelled. Pro-life groups protested. Several families offered to adopt the child. An Indiana judge ruled in favor of the parents' right to take their physician's advice. Seven days after its birth, the child died.

The Baby Doe case made the front page of newspapers across the country. Influential members of pro-life groups leaned on their White House contacts. Soon, HHS issued regulations that set up toll-free hotlines for reporting Baby Doe-type cases to HHS, created federal "Baby Doe squads" to investigate tips, and threatened to hold hospitals receiving federal funds in violation of civil rights laws if they withheld treatment from handicapped newborns.

Although Koop was consulted in the drafting of those regulations, and defended them publicly, his major involvement didn't begin until after the birth in 1983 of an infant that had spina bifida and other complications and was dubbed "Baby Jane Doe." "We're not just fighting for this baby," Koop proclaimed on "Face the Nation." "We're fighting for the principle of this country that every life is individually and uniquely sacred." The Justice Department wanted to make the Baby Jane Doe case a test of the principles underlying its regulations. It was Koop who formally requested copies of the child's medical records, the denial of which led to a major legal battle.

But it was also Koop, uncomfortable with the administration's interventionist approach, who

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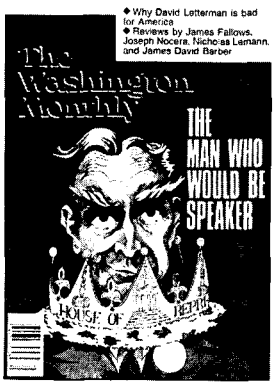

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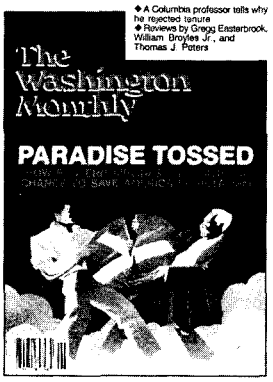

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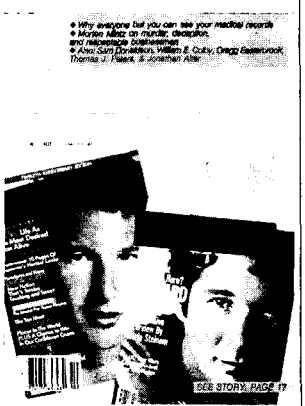

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forged a compromise. In a conversation with Margaret Heckler, then secretary of HHS, about Baby Doe, Koop says he told her, "Now, I have been taking all the flack for two years, and I have had no role that could help me deflect some of that stuff. I said if I'm going to take the flack why can't I write the regulations? She was very reasonable. She said go ahead and do it."

Over the past several months, Koop had been meeting with some of the fiercest rivals involved in the issue: the American Academy of Pediatrics (AAP), along with pediatric hospital, pro-life, and disability rights groups. The AAP, which adamantly opposed the existing "Baby Doe" regulations, suggested a compromise that appealed to Koop's Republican sensibilities: hospitals would set up their own "infant care committees" to review Baby Doe-like cases. At these meetings, the rival group produced a "Statement of Principles for the Treatment of Disabled Infants," which in essence required physicians to treat infants with handicaps unless such treatment only prolonged the dying process. Though Koop clearly represented the administration, he played the role of moderator, and was willing to listen. "He and I were flat out adversaries on this thing," recalls Dr. M. Harry Jennison, then executive director of AAP, "but over time I've came to respect him for his intellectual honesty."

Koop wrote regulations that incorporated the group's guidelines. A court later struck them down. But by the summer of 1984 Congress, inspired and guided in part by Koop's compromise, passed overwhelmingly an amendment to the Child Abuse Act, defining refusal to treat handicapped newborns as child abuse. This allowed Washington to withhold federal money to states that lacked procedures for guaranteeing the medical rights of disabled infants.

The Baby Jane Doe case showed a diplomatic side of Koop that liberals hadn't noticed in 1981. "Behind the scenes he really was manipulating and moving the administration to the decentralized, non-federal approach," says Jennison. "He was the one who could speak from a medical viewpoint. That had a lot of weight."

Smoke out

Liberals would also learn to appreciate Koop's zealous side, at least when he applied it against smoking. Past surgeon generals have warned of the dangers of smoking; Koop has turned that warning into a personal crusade. In his reports, he warns of smoking's ruinous effects on the heart; he calls smoking "an addiction"; he attacks smokeless tobacco; he warns of the dangers to nonsmokers of "passive smoking" and cites smoking as the number one hazard in the workplace. In May 1984, he began a public relations campaign, calling for "a smokeless society by the year 2000." In countless press conferences and speeches, Koop has argued that by the end of the century our attitudes should evolve to the point that no smoker will light up in the presence of a nonsmoker without permission. Jesse Helms, who had been Koop's strongest Senate supporter, called for his resignation.

The style he'd employed as the pro-life movement's most effective propagandist served him here. With his steely gaze, Dutchman's beard, summer white uniform and powerful Brooklyn voice, he is an imposing speaker. People don't often light up in front of the man; when they do, he sternly hands them a button that reads, "The surgeon general personally asked me to quit smoking." He has called tobacco companies "sleazy" and labeled as "flat-footed lies" their claims that science can't say with certainty that tobacco causes cancer. Antismoking groups, like pro-life groups before them, value Koop's knack for drawing the attention of both the public and the press.

To the Reagan administration, however, Koop's antismoking crusade has been a headache. It doesn't seem to share Koop's extreme distaste for tobacco and the tobacco industry. Quite the opposite, in fact. In a 1980 campaign appearance the president promised to "end what has become an increasingly antagonistic relationship between the federal government and the tobacco industry. I can guarantee that my own cabinet members will be far too busy with substantive matters to waste their time proselytizing against the dangers of cigarette smoking."

With Koop running around the country passing out buttons, that's been a hard promise to keep. But some in the administration have tried. Last March, for instance, Koop lost a battle with Defense Secretary Caspar Weinberger. Military personnel have long enjoyed a discount on cigarette purchases. In fact, cheap smokes during World War II were the chief cause of the great rise in the number of smokers in the late forties and fifties. Koop had been working behind the scenes with the Defense Department's assistant secretary for health affairs, Dr. William Mayer, to eliminate the discount. Weinberger overruled Mayer, bowing to pressures from tobacco state legislators, the tobacco industry, and associations of present and former military personnel. The military groups had protested that cuts in

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cigarette discounts would provide a dangerous precedent for cuts in other benefits. "It just doesn't make sense to me," Koop said publicly of Weinberger's decision. "How could the removal of cigarettes be viewed as a reduction in benefits when the only benefits would be a lifetime of illness and early death?"

Koop took on other administration officials last summer. He had agreed to testify at Henry Waxman's health subcommittee, which was discussing a ban on all tobacco advertising. When White House Chief of Staff Donald Regan was told that Koop planned to endorse the ban, he barred him from testifying. Waxman and Regan exchanged a series of angry letters; with all the bad publicity, Regan relented. Koop would testify, but with a Justice Department representative at his elbow to make sure the adminstration's line was properly aired. The Justice official told the committee that the adminstration had "very serious concerns" about banning tobacco advertising and that it was "not convinced that the case has been made that cigarette advertising leads to increased consumption." Koop politely disagreed. Tobacco promotion, he said, "increases the total universe of users and increases consumption by those who already use it. It does this, and does it very effectively." The Justice official said the adminstration didn't favor a bill sponsored by Rep. Mike Synar banning tobacco ads. Said Koop, "As a person, I endorse the bill." It was a great victory for the bill's sponsors.

Fair warning

For a long time there was one issue about which Koop could not speak his mind—AIDS. The surgeon general's duties and responsibilities are delegated by the assistant secretary of health. The assistant secretary during the first Reagan term, Dr. Brandt, said Koop was not to talk about the disease. Almost since the disease was first identified, gay groups, outside health experts, and scientists in the HHS bureaucracy argued to top officials that public education was the only weapon against a disease with no known cure. But those officials resisted the idea, in part to avoid the kind of controversy over sex education currently swirling around Koop. "We were getting 5,000 letters a week saying don't do AIDS research because it's God's retribution," recalls a former HHS official who worked closely with Brandt. "It makes you think twice about crafting national messages that will speak to the needs of the risk groups but won't offend other groups." Another reason was money: the administration had budgeted none for AIDS education until fiscal 1984, and then only a paltry $1.4 million. As Public Health Service personnel leaked memos to Capitol Hill staff members on the need for public education efforts, Congress appropriated nearly $10 million in 1985 and $30 million in 1986. In spending this money, federal public health officials were told to be extremely circumspect, which led to vague and misleading public warnings such as "avoid exchanging bodily fluids." This euphemism policy extended to the education funds HHS funneled through state and local government health departments to private community and gay groups.

Finally, in October of last year, the president, whose remarks on the epidemic had amounted to a few cursory answers to reporters' questions, freed Koop's tongue by asking him to write a report. Observers sensed a diversion: the administration was simultaneously offering budget cuts for AIDS research. Whatever their motives, Koop's friends in the White House had fair warning, Koop recalls. "I told them, I'm going to do a health report. It's not going to be political. And I'm not going to clear it with anybody before delivering it to the White House."

For months, Koop invited experts and representatives of AIDS-affected groups into his office. "He listened very carefully, didn't ask too many questions, didn't say too much," recalls Gary MacDonald, executive director of the AIDS Action Council. "He gave me no sense of what he was thinking or what he planned to write in his report."

Few people anticipated what they would hear. "I was stunned," says MacDonald. "A man of his political reputation, exercising the kind of moral leadership that the Public Health Service had not done to date? I was amazed."

"Many people—especially our youth," Koop announced at the report's October unveiling, "are not receiving information that is vital to their future health and well-being because of our reticence in dealing with the subjects of sex, sexual practices, and homosexuality. This silence must end." His report's frank discussion of the causes of AIDS transmission and ways to prevent its spread has given federal health officials the latitude to educate the public well. "We certainly feel he's been very positive. His courage on AIDS and smoking is to be commended," says Katherine McCarter, the American Public Health Association's associate executive director. As to the wisdom of APHA's past opposition, McCarter replies, "that's all behind us. We really don't like to dwell on that." ■

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MEMO OF THE MONTH

Veterans Administration

Memorandum

Date: November 26, 1986

From: Chief, Pharmacy Service (119)

Subj: Authorized Easy Listening Radio Stations

To: All Staff

1. To allow some variety in listening, the following FM radio stations are approved for use:

FM 98.1 - Classic King FM

FM 101 - KSEA

FM 104 - KBRD

2. Changes from one to any of the others listed above may be made as desired, with group approval.

WILLIAM B. BREUNINGER
Chief, Pharmacy Service
opwp-mem-30

VA FORM [illegible]

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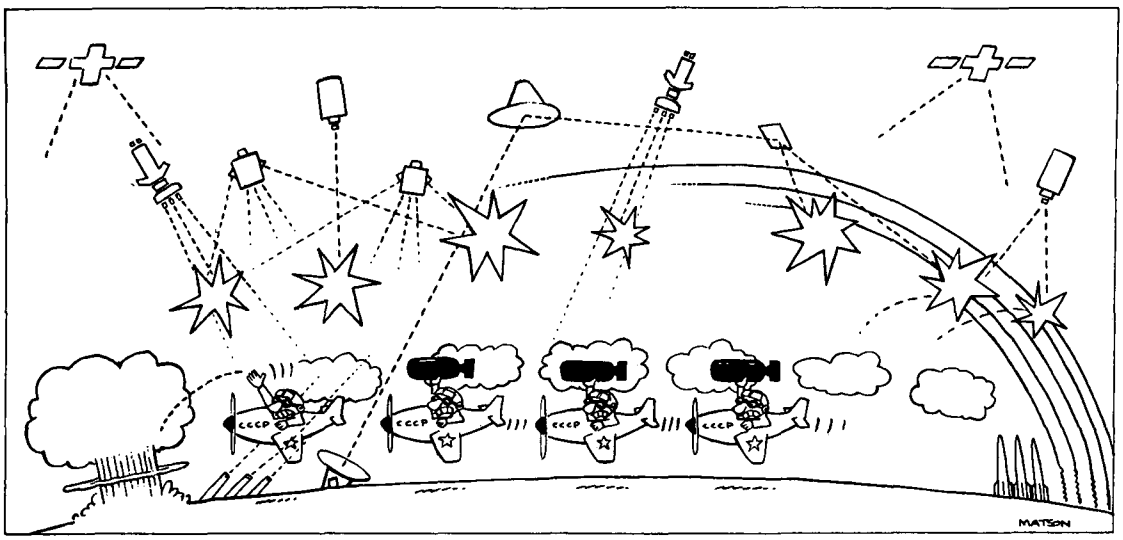
The history of defensive weapons shows why Star Wars won't save us



THE DOOR SDI WON'T SHUT

by Charles Hammer

The proposed Star Wars defense is almost always diagrammed from a meteor's viewpoint, showing a sky full of orbiting gee-whiz weapons that neatly zap ballistic missiles as they blast off from the Soviet Union.

Yet none of this tangle of kinetic kill vehicles, hypervelocity guns, x-ray lasers, particle beam generators, surveillance satellites, and mirrors is ever shown blowing up a relatively ordinary weapon that could destroy our cities and industries almost as well as ballistic missiles could: bombers.

The Reagan administration would undoubtedly protest that some of the technology that comes out of SDI surely could be used some day to protect against these bombers (or their unmanned cousins, cruise missiles). But even Star Warriors admit that most of the exotic gizmos now being discussed aren't even theoretically capable of working in the atmosphere. The few that might be made to work could be rather easily countered.

Instead, we'd be defending ourselves against bombers and cruise missiles with more conventional arms. But the record of this kind of defense is pretty poor; the best defenses have never been able to stop more than a fraction of even a weak air offensive. When you talk about conventional bombs, percentages may count for something; for nuclear warheads, they are meaningless. Until someone figures out how to stop all the planes, the problem of stopping ballistic missiles is irrelevant to the protection of the American population. Never has a large-scale, determined attack by ordinary aircraft been stopped to any degree that would make a difference in a nuclear war.

Charles Hammer, former reporter for the Kansas City Star, *teaches journalism at the University of Missouri in Kansas City.*

Real world glitches

In 1942, 163 Liberator bombers raided the German oil refineries at Ploesti, Rumania. Fifty-two of them were shot down in a brilliant performance by the Luftwaffe and German antiaircraft gunners. That was one of the worst losses in any air raid in any war. Yet two-thirds of the planes still dropped their bombs and returned to base. For all the technological improvements since then, defenders have seldom stopped more than 10 percent of attacking bombers.

One reason planes get through is that pilots

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relish shooting first at the people who are shooting at their planes. In 1951, the North Koreans and Chinese communists tried to repair an airfield at Pyongyang that was ringed by more than 100 antiaircraft guns. Forty-six American Shooting-Star jets swooped in one day to pound the fields with bullets, bombs, and rockets. Twenty-one four-engine B-29s bombed through the rising dust to complete the destruction. Not a single American bomber was damaged.

But we weren't the only ones getting through that era's defenses. Robert Jackson, in his *Air War Over Korea*, describes how the communists regularly bombed our airfields at night with Russian Polikarpof-2 Biplane Trainers. These "bed-check Charlies" created little radar image and flew too low and slow for our jets, which were designed for high-speed dog-fights, to shoot down. It was a time warp in technology—the sort of glitch that happens all the time in the real world. These biplanes kept the troops awake, destroyed five million gallons of fuel at Inchon, and once straddled a group of parked Sabrejets with bombs. "In less than two minutes," writes Jackson, "one rickety stick-and-canvas biplane had inflicted more damage on Sabres of the 4th Fighter-Inceptor wing than had the speedy MiG-15s in all their air combats so far."

Defenses have gotten more sophisticated over the years, but bombers have kept up. During the Vietnam war, American radar-jamming aircraft drove the North Vietnamese SAM missile crews crazy. Our F-105 Wild Weasel jets spotted their ground radar and knocked them out with missiles. In 11 days of bombing over Hanoi in the winter of 1972, American B-52 bombers flew 700 sorties. The North Vietnamese launched between 750 and 1,000 SAM-2 missiles at them, but only 15 planes were brought down.

Consider how well antiaircraft defenses worked in the Yom Kippur War of 1973. Egypt, with Russian help, had constructed perhaps the most dense missile defense field ever created. It included 150 batteries of the best Soviet SAM missiles—three different types with interlocking fields of fire and different electronic guidance characteristics. Hundreds of Russian Strela shoulder-launched missiles were also in place, plus hundreds more antiaircraft guns. Its ground forces reeling under the surprise attack of Egypt and Syria, Israel couldn't give the missiles first priority, and lost 50 planes in the first five days of the war.

Then Israeli fighter-bombers started after the missiles, sometimes flying in very low to hide in radar ground clutter, zooming up just past the missiles to dive back and release bombs. As pilots broke away at low altitude, they dropped flares to confuse heat-seeking SAMs. Starting at the northern end of the Suez Canal, Israeli pilots destroyed battery after battery.

In a later case, the Syrians in 1982 put three types of SAM missiles in the Bekaa Valley in Lebanon. In response, the Israelis flew a remotely piloted drone above the missiles, which caused the Syrians to switch on their radar to pinpoint the little target. Flying nearby, but out of range, was an Israeli E-2 Hawkeye surveillance plane that determined the radar frequencies of the Syrian weapons. Israeli planes then launched Shrike anti-radar missiles set to those frequencies and sent Wolf ground-launched missiles behind them. Nineteen SAM sites were destroyed and four heavily damaged—without the loss of a single Israeli plane.

But if the Syrians developed nuclear bombs, could the Israelis' air superiority stop them? An hour-long dogfight followed Israel's destruction of the Bekaa missiles. A hundred Israeli planes tangled with as many Syrian planes and shot down 29 of them, again without a single Israeli loss. It was a terrible defeat for the Syrians, but it was nonetheless a defeat that would have left 71 Syrian planes to deliver nuclear weapons had they been armed with them.

Shooting them in the back

There are those who may say that inferior weapons or their operators were responsible for the failure of these Arab defenses. Western science is surely better, Western warriors more capable. *Our* Star Wars missiles would work.

Western interceptor missiles—the British Sea Dart and Rapier, the American Patriot—would probably be part of our first-choice defense against cruise missiles and bombers. (And against ballistic missiles in early Star Wars plans. Most long-range Star Wars planning also calls for such missiles as our final defensive layer.)

But the record of this kind of missile in the Falklands isn't encouraging. In that short little war, some outdated Argentine planes went up against American Sidewinder missiles on British Harrier fighters and a whole array of surface-to-air missiles: Sea Slug, Sea Cat, Sea Dart, Sea Wolf, Rapier, even the shoulder-fired British Blowpipe and American Stinger. Plus hundreds of antiaircraft guns.

The Argentines did nearly everything wrong. They attacked the wrong ships, aiming most often at missile-firing destroyers and frigates instead

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Never has a large-scale, determined attack by ordinary aircraft been stopped to any degree that would make a difference in a nuclear war.

of the helpless troop ships and transports vital to the British invasion. They also made little effort to attack British carriers, which launched the Harriers that shot down Argentine planes.

Nevertheless, a handful of Argentine pilots nearly won the Falklands war—and probably would have if they had realized how successful they were being and had persisted. They planted missiles or bombs in 13 British ships, six of which sank.

In *The Battle for the Falklands*, Max Hastings and Simon Jenkins describe the British reaction to the sinking of their destroyer, *Sheffield*, by an Excoet missile: "Officers and men alike were appalled, shocked, subdued by the ease with which a single enemy aircraft firing a cheap, L300,000, by no means ultra-modern sea-skimming missile had destroyed a British warship specifically designed and tasked for air defense."

Defense ground-to-air missiles often didn't work well for the British. A Sea Dart on the destroyer *Coventry* zeroed in on a high-flying Argentine reconnaissance plane, but the missile's flash doors refused to open. By the time a sailor beat the doors open with a hammer, the plane was out of range. British radar failed to see planes that skimmed ten feet above the sea. Missile radars failed to zero in when planes approached with land masses behind them. "The cold was creating intense difficulty for the aimers, who found themselves unable to track missiles whose tail glow was obscured by a cloud of condensation. Both Sea Dart and Sea Wolf were achieving kills, but they seemed unable to provide decisively effective protection for themselves, far less for the task force," write Hastings and Jenkins.

Destroyer *Coventry* and frigate *Broadsword* were patrolling west of the Falklands when they were attacked by Argentine Skyhawks. The *Broadsword*'s computer studied two close radar images of approaching planes and couldn't decide which to attack. It locked up. The frigate took a bomb, which luckily for it didn't go off. *Broadsword* was about to fire at a second pair of Skyhawks when the *Coventry*, taking violent evasive action, turned across her bow. This time *Broadsword* didn't dare fire. Three 1,000-pound bombs hit *Coventry* and sank her.

Salt water had damaged the big Rapier missiles before they were installed on the hills ringing the British anchorage at St. Carlo. They had a tendency to fall off their slides onto the ground. Even when they were firing steadily, Rapiers claimed only nine kills, and Argentine planes still swarmed above the anchorage, bombing ships. British troops fired dozens of shoulder-launched Blowpipe missiles without a hit.

Not that the British didn't have some successes. Missile-aimers claimed a total of 29 Argentine planes. But when pursued by Harriers, Argentine planes didn't deploy flares to confuse heat-seeking missiles, and they usually didn't take evasive action but flew straight away until Sidewinder missiles caught them. British pilots had the luxury of approaching fleeing Argentines from behind, and of firing only when the planes were in their missile look-angle. Of 27 Sidewinders fired under these circumstances, 24 hit their targets.

With all its missiles and fighters, the British fleet was hit hard. Argentina attempted 445 combat sorties from the mainland with its first-line Mirage and Skyhawk planes. It completed 302 and claims to have lost only 34 of these planes.

Californian dreaming

If we peer far down the road at the possible new defenses against planes and cruise missiles that might come out of SDI, the odds don't get much better. There may be plenty of reasons why high-tech weapons may never work in outer space, but the hurdles multiply once you bring them into the earth's atmosphere.

The bullets of hypervelocity guns, which are meant to be fired at 10 or more kilometers a second—36,000 kilometers an hour—would encounter enormous air resistance down here and would probably burn up.

Virtually all scientists agree that x-ray lasers and neutron particle beams would be blocked by our atmosphere. Charged electron and proton particle beams could penetrate, but the unpredictability of the earth's magnetic field would make

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them hard to aim. Short wave-length, pulsed light lasers might pose a threat, but the atmosphere, and particularly clouds, weaken the beam. Furthermore, planes could be coated to reflect much of their energy, and simple evasive action such as a barrel roll could keep the laser from hitting one point long enough to achieve a burn.

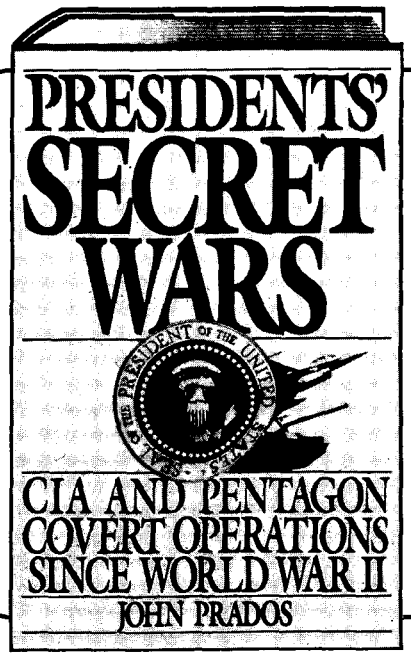
Since the late 1960s, the Soviet Union and the U.S. have relied mainly on ballistic missiles for their nuclear threat. But if those missiles should fail, or are knocked out, both sides have enough planes to get through.

The Soviets have the old Bear and soon will have the fast, high-technology Blackjack. Unrefueled, both could hit the entire U.S. and return to base. Their Mach 2 Backfire bomber would need mid-air refueling to cover the whole U.S. and return. Soviet bombers could come at you at 800 mph, turning and jinking at tree-top level. They could come out of the night, out of ground clutter and domestic planes on our radar. Send up a beam to find them; they can kill you with missiles that ride backward down the signal. Or they simply nuke you with cruise missiles that can hug the landscape and can be launched from up to 1,500 miles away.

Americans—and President Reagan—may be mesmerized by the flash and zap of the world of SDI dream technologies. Never mind that going ahead with the program will violate a treaty, destabilize the world's power structure, escalate the arms race, and cost more than anything else ever has. Ronald Reagan may promise that the $100 billion Strategic Defense Initiative (SDI) will be a perfect shield that will "protect [our people] against nuclear destruction," but it can't. The George C. Marshall Institute recently estimated in a study done for congressional SDI supporters that the whole SDI system could stop at best 90 percent of incoming ballistic missiles—and that assumes the Soviets won't do much to up the chances their missiles will get through. The more thoughtful Star Warriors say 70 percent. Yet if only 10 percent got through, that would still be enough to obliterate us. Those are the unjust mathematics of the super-power nuclear age. The attacking side can be incredibly sloppy, lose even 95 percent of its outgoing weapons and still destroy its opponent.

But even if we stopped every single ballistic missile, how would we escape destruction by planes alone? And if we go on funding SDI, why should we assume that the Soviets won't just make this part of their arsenal even tougher? ■

The book that explains today's headlines



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William Morrow

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Stock futures take risks off investors and place them on the whole market

FUTURES SHOCK

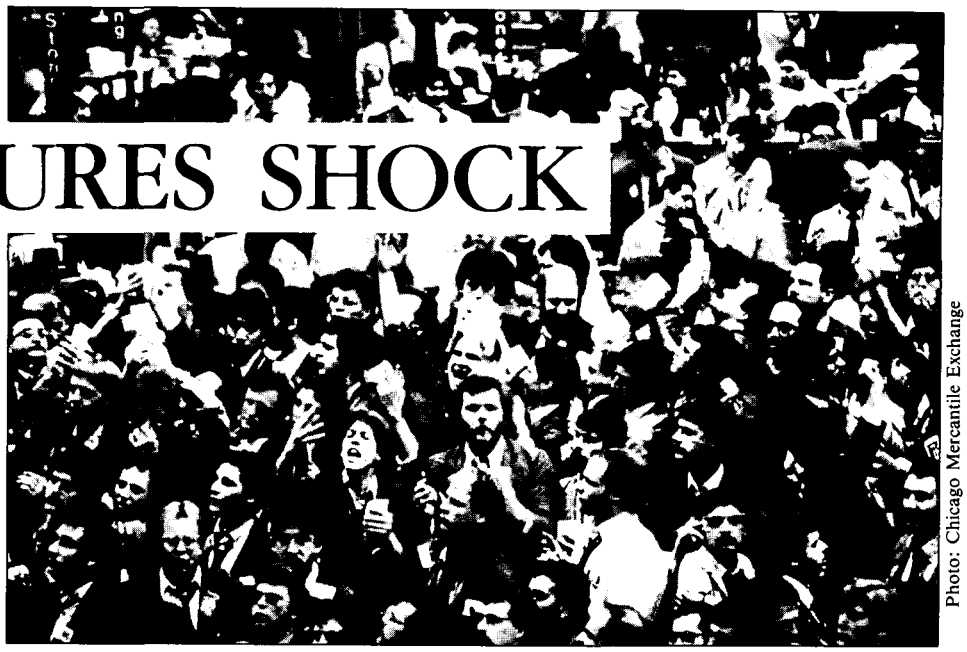

Photo: Chicago Mercantile Exchange

by Steven Waldman

Recent press reports have blamed the volatility in the stock market on stock index futures and options. Traders bristle at the suggestion, arguing that the market behaves wildly because of "market fundamentals," not because some financial tool is forcing it to. "It's like the National Rifle Association says about guns," explains market analyst Jeffrey Miller, referring to the lobby's motto that guns don't kill, people do. "Stock index futures just make it easier for the market to do what it wants to."

Unfortunately, his analogy is perfect. Futures and options may not force the market down when it wants to go up, but they do seem to make it more likely that the trips downward will be dangerous.

The standard definition of a future is simple: a contract to purchase a commodity, such as corn or hogs, at a given price and time in the future. With stock index futures, which were first traded in 1982, the "commodity" is a bundle of stocks. The value of the Standard & Poors stock index futures contract, for example, rises and falls according to the price movement of 500 different stocks. The only difference between pork belly futures and stock index futures, then, is that in the first case if something goes very wrong, the nation could suffer a bacon shortage, in the second, a financial collapse.

Occasionally, warnings are heard in the news about stock index futures and their relationship to computerized "program trading," usually when the stock market's euphoria is interrupted by a brief plunge, like the 116-point dive it took in 71 minutes on January 23. But mostly the din of Wall Street's partying has drowned out complaints that these might also lead to serious trouble.

That's unfortunate because some of those warning of trouble are in a position to know. On December 11, as the stock market entered the final turn in its wind sprint toward 2,000, John Phelan, chairman of the New York Stock Exchange, suggested that stock index futures, in combination with certain recent trading strategies, might cause the market to experience a "meltdown." "Two years ago, I would have said no," Phelan told a meeting of Gannett Newspaper editors. "Now I think it could happen." The next day he said he was thinking along the lines of a 600-point drop, adding, "A Boesky can undermine the credibility of the market. This type of trading...can destroy the market."

Steven Waldman is an editor of The Washington Monthly. *Research assistance by Caitlin James.*

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Some New York Stock Exchange officials agree with futures advocates that these new instruments help the stock market in many ways and may even be partly responsible for its rapid growth. At the same time, the officials warn, the possibility that they might also contribute to a meltdown is worth taking seriously.

A 600-point drop wouldn't necessarily lead to a great depression, but in percentage terms it would be more than twice the size of the drop on October 28, 1929. It would mean that on average the price value of stocks would decrease by close to 30 percent. The value of pension funds could drop, companies might have to lay off workers for lack of modernization capital, banks might be destabilized because their investment portfolios or too many of their customers were injured in the stock market, and, in general, pessimism would guide economic decisions.

Sleeping better

The frenzy of people screaming hysterically at each other in the futures trading pit has its origins in Renaissance Europe, at trade fairs where merchants and customers would meet and agree on purchases of products coming through town later. Despite being frequently compared to legalized gambling, futures trading does serve some important economic functions; in the U.S., it grew out of the desire of midwestern farmers to have a way of selling their produce with some certainty of the price.

Take the case of a grain elevator operator who fears that the price of his corn will drop before it can be sold, perhaps because of a larger than expected corn crop. He sells a futures contract in corn and locks in the price he will be paid, "hedging" against unpredictable market shifts. The purchaser might be a processor like General Foods, which fears that prices are going to rise and wants to preserve a low price. Or it may be a speculator whose interest is making money by betting the price of corn is going to go higher than the futures price.

In the late seventies, trade began on financial futures, including contracts for products such as deutsche marks, Treasury bills, bonds and government-backed mortgages. During the Carter administration, the Commodities Futures Trading Commission (CFTC), the agency that regulates futures, blocked approval of stock index futures for fear they would cause stock market volatility and divert capital from securities. In 1982 the Reagan administration CFTC approved the trade of these futures as well as options. (Although most of the debate has focused on futures because they are more widely used, options function much the same way, the main difference being that a futures contract confers an obligation to buy or sell, while an option merely gives the right to.)

Five years ago, five million of the contracts were traded; in 1986 26.5 million contracts were, about three-fourths of it in the pits of the Chicago Mercantile Exchange. Although this volume is a small fraction of the stock market, it is being seen increasingly as the tail capable of wagging the dog.

In the case of a stock index future, speculators bet that a group of stocks is going to go up or down in value. If, for example, it is March 5 and a speculator believes the market will rise, he might buy one Standard & Poors futures contract worth roughly $140,000 by placing a margin deposit of $10,000. If those stock values rise to $141,000 on March 6, the speculator that day could take his $1,000 profit. If, however, the market heads down sharply, the speculator would immediately feel the pinch. He would have to add money to his initial margin deposit in order to hold onto his contract. The speculator could have sold futures also. How can you sell something you don't have? "Selling," in this case, is the equivalent of placing a bet that the market is going to go down, the wager being in the form of a standardized contractual agreement.

The hedger in this case—the equivalent of the grain elevator operator—is the large-scale stock market investor. If money managers investing for a pension fund fear their stock portfolio might lose value, they can sell index futures, in essence betting in New York that the securities will increase in value and in Chicago that they will shrink. If the stock market declines, the investor's losses will be partially offset by the "gains" on the futures side.

That is why leaders of the New York Stock Exchange hail the benefits of stock index futures. Futures give investors a certain security and may have helped fuel the stock market's recent growth by making institutional investors feel more comfortable buying securities. Indeed, most of the recent growth in use of stock index futures has come from such investors. "I do work for a lot of large portfolio managers, and for the first time they don't have to sell off stock every time they're scared," says Philip Johnson, formerly CFTC chairman and now a partner at the law firm Skadden Arps. "They can sleep better at night."

But at the same time, these leaders warn of the danger of futures trading. The growth in the

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market has been tempered by periodic plunges, the largest being the 86-point drop on September 11 and the 45-point drop on January 23, the day that saw the Dow Jones Industrial Average plummet 116 points in just over an hour. In these and other cases, press accounts have pointed accusingly at the use of "computerized program trading," a term reminiscent of science fiction movies about feuding computers that start nuclear wars.

Although program trading has become a catch-all phrase, it usually refers to "arbitrage," which sounds daring but is actually a strategy that institutional investors can use to lock in risk-free profits by exploiting differences that develop between the value of the actual stocks and the futures contract. Arbitrage has been blamed for market swings on "triple-witching-hour" days when the stock index futures and other equity-related options all expire. But the triple-witching-hour phenomenon may be overblown. Although arbitrage does lead to sudden bursts of trading in the closing hour of those quarterly expiration days, most of the largest swings have not taken place then.

Game of chicken

So what *is* the problem? The combination of stock index futures and computerized program trading has created a suped-up stock market. It allows investors to play the stock market, but by a different set of rules—the rules of futures. And futures can have the effect of throwing oil on a

THE CHICKENS GUARDING THE CHICKEN COOP

New Deal legislation eliminated many of the trading practices that caused the 1929 stock market collapse and, perhaps most important, created the Securities and Exchange Commission (SEC) to permanently stand watch and prevent a future crash from occurring. Stock index futures, however, are not stocks and are therefore not regulated by the SEC. They are instead regulated by the 13-year-old Commodity Futures Trading Commission (CFTC), an agency set up primarily to regulate agricultural and mineral trade. Rep. Dan Glickman, a member of the House Agriculture Committee, charitably described it as "an inconsistent parent who one day overdisciplines a child and the next day looks the other way as the child destroys his neighbor's house."

Jurisdiction over these financial tools fell to the CFTC as a result of a political agreement negotiated in 1982. Rep. John Dingell, chairman of the Energy and Commerce Committee, had expressed interest in having the SEC take over stock indexes. This prospect caused shivers in the futures industry, which viewed the SEC as a more intrusive regulator, particularly when spurred on by Dingell, who had proposed a moratorium on stock index futures. "I'm satisfied they [the CFTC] know a lot about sow bellies," Dingell said in one hearing. "I'm not satisfied they know much about the stock market."

Hearing Dingell's footsteps, the CFTC chairman, Philip Johnson, moved to preempt him. Johnson brokered an agreement with SEC chairman, John Shad, that split up the jurisdictions so the CFTC retained control over index futures while the SEC regulated a related product, options on the indexes. Johnson had support from the agriculture committees in Congress, which were not pleased with the prospect of giving up their jurisdiction over such an important area, particularly given the political influence of the Chicago exchanges in pushing the futures. "You just don't give something up in Congress," says Glickman.

Since the agreement, the CFTC has done nothing to temper the growth of stock index futures. In large part, this is because they represent the Reagan administration's anti-regulatory sentiment. Despite its much publicized aggressive pursuit of insider traders, even the SEC has so far agreed with the CFTC actions—and inaction—on financial futures.

Ideology aside, the CFTC's track record does not inspire confidence that this crucial area is in good hands. Founded in 1974 in response to a wave of commodity futures frauds, the CFTC remains a small agency. Its budget is one-fourth that of the SEC. Most of its staff of 500 fits on five floors of a downtown Washington office building with a "space available" sign in the lobby. Although its funding has increased 50 percent since 1982, its staff is up only 15 percent. During that time the volume of futures trading has doubled.

In part the budget has stayed small because of fiscal austerity, in part because the industry has wanted it to. Industry representatives have long exerted great influence over the commission, either directly or through members of Congress. When the Reagan administration was seeking new commissioners for the CFTC in 1982, they relied heavily on friends at the exchanges for the

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fire.

Futures, for one thing, require much smaller margins. While stocks require deposits of at least 50 percent, futures deposits are roughly 7 percent (recently raised from 4 percent). More important, trading on the futures side is cheaper. The brokerage fees for institutions buying one contract is about $30, compared to about $300 (or several times that amount at retail prices) for the several transactions needed to purchase an equivalent amount of stock. Buying and selling futures contracts also entails much lower "market impact costs"—an investor is more likely to get a better price when making one transaction than when making several. These differences add up for the large institutional investors. If the investor had bought 1,000 contracts of the Standard & Poors stock index futures, he would have had to put up a margin of $10 million and would have incurred $80,000 in direct and indirect transaction costs. To buy the equivalent 3.2 million shares of stock, the investor would have had to post about $140 million and would bear about $720,000 in transaction costs.

It's almost as if an enterprise zone has been created within the stock market. In essence, you can play the stock market but, using futures rather than securities, can do it faster, easier, and cheaper. If you think the stock market is moving up you can react more quickly and easily on the

names. Clayton Yeutter, the administration's trade representative and then president of the Chicago Mercantile Exchange, told *The Wall Street Journal* that the exchanges "took the initiative" in choosing all five members of the commission.

In 1982, the General Accounting Office (GAO) concluded that the CFTC's surveillance had remained small as trading had mushroomed and that it had relied too much on industry self-regulation "rather than on the substance of rule enforcement." The GAO proposed a user fee, similar to the one securities brokers pay to help finance the SEC, to help pay for stricter CFTC enforcement. But when Senator William Roth proposed a fee of 6 to 12 cents per transaction, a tiny fraction of what traders pay in brokerage fees, the industry rebelled and beat back the proposal.

"The industry has been extremely active politically," notes former CFTC chairman, James Stone. "For its size it's as politically active as any industry in the country." In the last election, three PACs set up by commodity exchanges gave more than $500,000 in contributions. A 1985 *Common Cause* study showed that in earlier elections, individual commodity traders had given more than $200,000 and that the exchanges regularly give more than $100,000 in honoraria to members. In addition, in 1984, executives of the Chicago Board of Trade Clearing Corp., an accounting arm of the Board of Trade, pleaded guilty to having illegally instructed more than 20 employees to make out personal checks to five congressmen.

Not surprisingly, though, the biggest beneficiaries of industry generosity are the Agriculture Committee members, who now receive about one-third of the PACs' contributions. The committee has so far shown little interest in stock index futures. When it held hearings last year on legislation to reauthorize the CFTC for three years, the topic of the potential effects of stock index futures barely came up, even though the market had experienced several deep drops that had been partially attributed to program trading and futures.

The CFTC does not believe in much government intervention in the futures markets. "Industry self-regulation does work extremely well," says Kenneth Raesler, the CFTC general counsel. "We just don't have the people to watch every trade and do all the enforcement ourselves." In some areas, such as policing fringe operations and registering traders, the National Futures Association, a self-regulatory body set up by the industry in 1982, has been effective and has relieved the CFTC of a substantial burden. But self-regulation also means that some rather important areas are left to the industry. While the Federal Reserve System sets margins for the stock market, the exchanges set the margins for futures. In addition, the CFTC has few people at the exchanges to monitor either market swings or irregular trading. While the SEC has 40 percent of its SEC staff in regional offices, the CFTC keeps only about 25 percent of its staff in the field.

Another example of the CFTC attitude toward regulation is insider trading. While the SEC has issued tough new rules to ferret out insider-trading cases, the CFTC has left that problem to the other government agencies that might be involved in the case. For example, says Raesler, if an Agriculture Department employee leaks word of a wheat crop forecast to a commodities trader, it is up to the Agriculture Department to find that employee and punish him or her.

The classic case of both industry self-regulatory and CFTC regulatory failure was the

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futures side. Combine this with computerized trading strategies that enable—even encourage—investors to shift enormous amounts of money in seconds, and you have the potential for a dramatic change in the psychology of the market.

During the recent drops in the market as well as many of the surges, traders reported that stock market movement was preceded by feverish trading in the futures pits. The 116-point January 23 drop seemed to be set off in part by investors using "technical analysis," the practice of charting broad market trends and selling off when the market seems to have reached a certain plateau, and in part by traders selling stocks and futures to exploit discrepancies between the stock and futures prices. The futures trading helped fuel the market downturn.

The scenario for a catastrophic meltdown is theoretical but commonsensical: The market starts heading down, perhaps because of some bad economic news—say, Paul Volcker oversleeps, causing worldwide financial panic. Confronted with this news, traders start selling off stock index futures, betting that the stock market will go down. As the index goes down, traders clued in to the dropping market start selling stocks. The more stocks that are sold, the more people sense a charging bear, and the lower the index goes, all of which triggers more stock sales and a rapid downward spiral. "When the

silver crash of 1980. During the previous two years, the Hunt brothers, in an attempt to corner the silver market, feverishly bought silver futures and sent the metal's price from $10 to $50 an ounce and then back down to $10 in three months, including a one-day drop of 32 percent. This caused dramatic price drops in the stock market and several other agricultural commodities.

In one important respect the silver crisis presents different problems than stock index futures; even the Ewings and Carringtons in collusion couldn't corner the stock market. The case did, however, point up the dangers of lax regulation. As the Hunt brothers and their partners were buying up the world's silver supply, neither the CFTC nor the exchanges took strong action. Their failure to do so threatened not only silver investors but other elements of the financial system, because the market collapse endangered the banks and brokerage houses that had lent the Hunts about $1 billion to cover their margin calls. "Faced with dramatic and disorderly market conditions, the CFTC took none of the specific preventive or emergency actions allowed under the Commodity Exchange Act, although it had both the statutory duty to act and the requisite information," concluded a House subcommittee that investigated the event.

Even the CFTC's harshest critics have said the agency has been making progress, becoming more aggressive with each year. In response to the silver crisis, the CFTC did strengthen limits on the amount of contracts one investor can hold. It recently went after the Phibro-Salomon investment firm for swindling its customers and proposed new requirements that might help ensure that exchanges can cover losses if there is significant futures movement.

The CFTC has even taken a step toward clamping down on "dual trading," in which floor brokers make deals for themselves before their customers. (If a trader knows he's about to execute a large purchase that will send the price of the commodity up, he may first buy some futures for himself.) In 1984, the CFTC concluded that it didn't think dual trading was a big problem, but that it was difficult to know. The CFTC had a tough time reconstructing the pattern of transactions because traders were required to record their activity only in half-hour intervals. The CFTC proposed mandatory one-minute time stamping so it could determine the sequence of trades.

But its courage was short-lived. After the industry had blasted the CFTC's proposal as meddlesome and disruptive, CFTC chairwoman, Susan Phillips, quickly told Congress she would be satisfied with 70 or 80 percent compliance during busy periods and clarified that the rules were merely standards that the exchanges could meet any number of ways. Although some exchanges have implemented time stamping, others are adopting a system that would not provide regulators as much information as strict accounting of transaction times.

The most egregious example of CFTC weakness is its failure to do anything about stock index futures. This is one area where self-regulation is not sufficient. In weighing the pros and cons of the futures, the industry simply emphasizes a different set of concerns than government should. Asked whether he was concerned that the stock index futures threatened the stock market, Lewis Horowitz, president of the New York Futures Exchange, declared, "Where there's risk, there's opportunity!"

—S.W.

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stock market is suddenly hit with an avalanche of sell orders, everyone goes 'Oh my God,' " says Jeffrey Miller, of the investment firm of Miller and Tabak, who helped pioneer the use of these futures but now has doubts. "It adds fuel to the fire to see those red sell tickets pouring down onto the floor."

As the market starts to dip, computerized trading strategies kick in. Traders start selling off stocks, not because of the gloomy economic news but because the futures contracts have dropped below the value of the equivalent bundle of actual stocks and they want to lock in a quick profit. That is precisely what happened in the January 23 drop.

Robert Birnbaum, president of the New York Stock Exchange, warns that an initial slump, whether inspired by arbitrage or a case of the economic blues, may trigger another investment strategy known as computerized portfolio insurance. Under these programs, investment managers will sell fixed portions of stocks or futures when the market drops by a certain amount, often 3 percent. (The Dow Jones Industrial Average dropped 4.6 percent in September and 2 percent total on January 23.) So, one exaggerated fall could trigger another exaggerated fall, all within a matter of minutes. "The whole thing just keeps cascading down," Birnbaum says.

Portfolio insurance programs were a major factor in the September downturn. Ironically, the strategy of hedging used to justify the stock index futures seems to help accelerate the market drops they are supposed to protect against. Portfolio insurance covers about $50 billion of roughly $1 trillion in pension fund assets, and that portion is growing steadily; the more it does, the more it will make minor downturns into major ones.

Positive karma

Futures supporters at the CFTC, the Chicago exchanges, and on Wall Street, argue that just because the futures movement preceded the stock plunge doesn't mean it caused it but merely that the futures pit was able to react faster to the bad news. The same debate has raged over agricultural commodities for years; farmers often claim that futures speculation drives down the price of the crop, while futures traders claim crop performance drives the price of the futures. It is, to put it in terms of broiler futures, the ancient financial question: Which came first, the chicken or the chicken future?

Perhaps the market would drop just as drastically without stock index futures, but it seems that during the recent plunges trading was reacting not to economic news, but to market news, which was being shaped by the index futures and computerized trading.

Defenders of the system insist that regardless of the scenario, futures are simply a lubricant, enabling the market to get where it was going faster than in the pre-computer age, and making the market more efficient. Moreover, according to some studies, if you measure all the ups and downs of the markets in percentage terms, volatility has not increased. But Birnbaum is skeptical. "Some people say that the market would have reached that in the old days in three weeks; this time it got there in seven minutes," he notes. "You've got to look at the market and say, Is everyone willing to invest in the market and accept a 300-point downturn in one day rather than over a period of months?"

The answer is that the effects on market confidence would be starkly different. After such a drop, roughly equivalent in percentage terms to Black Tuesday in 1929, large investors would be more likely to say, "Let's take our $5 billion of fiduciary responsibility out of here," than, "Don't worry, we'll just wait for the market correction."

At any rate, given our debt-burdened economy, it is not entirely reassuring to think that the market is going to plunge uncontrollably only if there's bad economic news. In fact, probably the scariest thing about the recent plunges is that they've all taken place at a time when positive economic karma pervaded. What would index futures and computerized trading do to the market if people became convinced that bad times were ahead? These market innovations have yet to be recession-tested.

Indeed, the growth of stock index futures seems even more ominous when considered in the context of other similarities between now and 1929. For example, in a January 1987 *Atlantic Monthly* article, John Kenneth Galbraith argued that there are several disquieting parallels between the two eras. He noted in particular a trend toward excessive speculation and fondness for that magical financial concept, "leverage," in which small amounts of money create the potential for large profits—and large losses. He focused on junk bonds and leveraged buy-outs, and the precarious tower of debt their use has created. Such great indebtedness seems harmless enough when things are going well, but could be disastrous should a recession come and firms

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become less able to manage their debt.

The leverage on stock index futures should be unsettling given that the infamously low 10 percent margins on stocks in 1929 were higher than the current 7 percent margins on futures. That's not quite as threatening as it sounds. While in 1929 the other 90 percent of the stock cost was covered by debt—people getting in over their heads—the other 93 percent of the cost of futures is, or is supposed to be, covered by the actual assets of the investors. It is much harder to pile paper debts on top of each other in the futures markets since big losers must pay up at the end of each day.

Nevertheless, the low margin levels are troubling. Neither institutional investors nor speculators invest entirely on the basis of the cash they have on hand. When the Hunt brothers tried to corner the silver market in 1980, what should have been a silver crisis almost turned into a larger financial disaster. Regulatory agencies failed to intervene as the Hunts borrowed to make their payments, much as speculators had in the twenties. When they couldn't meet their margin calls, they endangered the Bache Halsey Stuart Shields Inc. brokerage firm and a network of banks that had lent them more than $1 billion. Since the firms investing in stock market futures are also involved in the questionable debt-financing arrangements mentioned by Galbraith, it is not unreasonable to expect that some of their stable assets are paper thin. "I have no doubt that the credit extension and internal leverage of firms are at all-time highs," says James Stone, the chairman of the CFTC under President Carter.

Even well-heeled investors who bet the wrong way on a dramatically shifting futures market might have trouble meeting their margin calls. As noted earlier, the existence of stock index futures creates a market dynamic that increases the chances that such a scenario would develop. Should such a rapid shift happen at the same time other blocks are crumbling beneath the nation's house of debt, the stock index futures could help transform a serious problem into a catastrophe.

A sour chorus

One way to minimize the danger of stock index futures is to make them more like securities. Stone suggests raising the margins as a way of ensuring that sharp futures market movement won't wipe out investors. Tom Byrne, who works at the index and options desk of Shearson Lehman and is the author of *The Stock Index Futures Market*, thinks the main problem with futures proliferation is the creation of a "commodities mindset" in the securities industry. The regulatory goal in the stock market, he notes, has been preservation of a "fair and orderly" market, while the futures industry's "open and competitive" standard places no premium on order. The difference is not hard to detect on the floor or in the futures prices. Futures traders thrive on volatility, big shifts, and great leverage, all values that do not lend stability to the stock market.

Byrne suggests creating a stable futures trading system. In the stock market, if an investor wants to sell 10,000 shares of General Motors, his broker doesn't just shout it out on the floor of the stock exchange and hope for the best. He tells a stock exchange "specialist," whose job is to find a buyer for those shares. If the specialist can't find a buyer he is obligated to buy himself. In return, he or she gets special trading privileges. For larger quantities of stock, the major brokerage firms seek out the opposite sides of trades before they go to the floor. These guaranteed buyers keep the price of stocks from dropping like that of bald tires at a garage sale.

The CFTC and the exchanges could also be more aggressive in encouraging large investment firms to undertake a similar function in the stock index futures arena. They could agree to stand ready to take the opposite side of certain trades in exchange for special trading privileges. If such an arrangement existed, a flood of futures sell orders could be immediately counter-balanced by some large buy orders, thereby keeping the price from dropping too quickly.

Another option would be to simply impose limits on how dramatically the futures market can shift in a day, a proposal that is considered virtually un-American by the industry but which is already in effect in most other futures markets.

There may be a solution that would preserve the benefits of stock index futures while minimizing their potential dangers. But such efforts may be inherently doomed because their most economically useful function—hedging under portfolio insurance plans—also helps accelerate plunges. To give security to particular investors, the futures endanger the entire market. The only logical plan, then, may be to abolish stock index futures. Perhaps if federal regulators put their minds to it, they could devise a less draconian but equally effective solution. But so far they have refused even to acknowledge there is a problem. And why should they? The downturns in the markets have been merely a few sour notes in a chorus of hallelujahs. And anyway, stock index futures don't cause crashes, people do. ■

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TIDBITS AND OUTRAGES

EAU DE BIG MAQUE AVEC LES FRIES

Psychologist Susan Schiffman has invented 40 odor sprays that dieters can spray on their tongues whenever they get a food craving. "What happens is that after three sprays, five maybe—some hard-core chocoholics may go up to 20 sprays—they don't want *that* anymore."

◆

JURORS BEGAN TO DOUBT THEIR DECISION WHEN, UPON HEARING THE AWARD, THE PLAINTIFFS WENT THROUGH THE ROOF

A U.S. District Court jury ordered two Transcendental Meditation groups to pay a former member $135,000 because they tried to convince him he could fly. The suit, which requested damages for psychological and emotional damage, claimed that students learned only to "hop with the legs folded in the lotus position."

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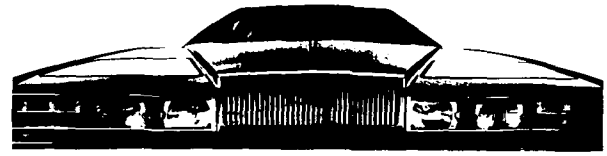

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THE OFFICIAL SCENT OF SODOM AND GOMORRAH

◆

THE FIRST TWO ARE WAY OUT AHEAD IN FUND RAISING

Three of the ten candidates for Mayor of East St. Louis, Illinois this year are convicted felons, including a forgerer, an extortionist, and a man convicted of trying to murder the forgerer.

◆

HOT UNDER THE COLLAR

The Institute for Policy Studies recently offered a series of lectures on sexuality and the church, including a "critique of celibacy within the context of Third World liberation theology."

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Turtles face death in the Caribbean as bureaucrats in Washington pass the buck

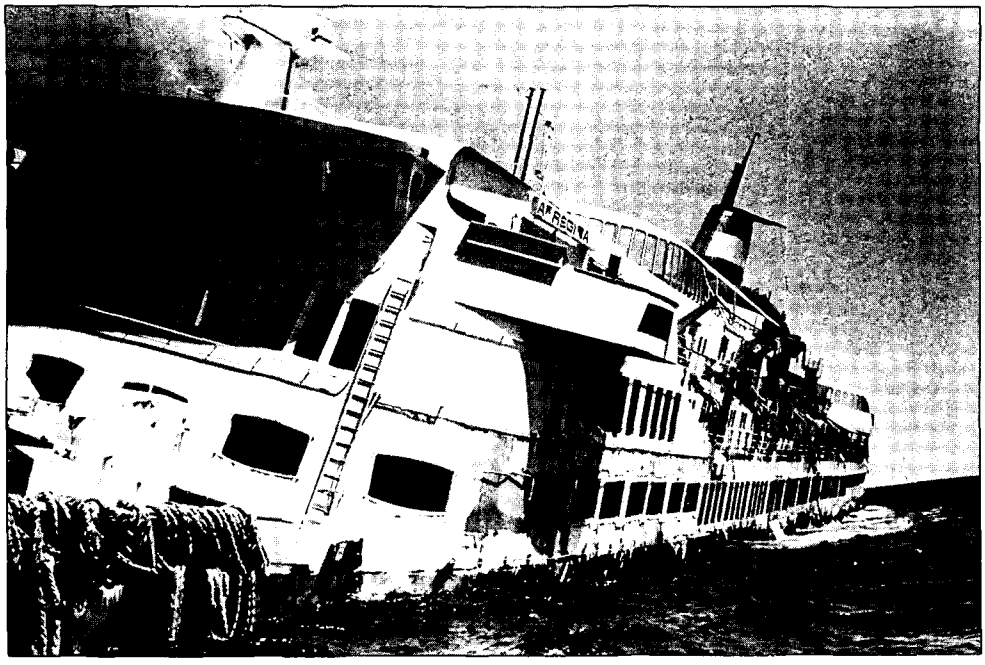

Photo: Gilberto Cintron/DNR Puerto Rico

THE TURTLES OF MONA ISLAND

by Russell Wild

On the night of February 15, 1985, at a few minutes past midnight, all hell broke loose on Mona Island, the last sanctuary of one of the world's most endangered sea turtles. A 3,900-ton, 330-foot ferry, midway on its usual seven-hour journey from Puerto Rico to the Dominican Republic, slammed into the coral reef off the island. It was a calm night, but the ship had veered several hundred yards off course. Authorities mumble about Captain Ascensio Bessone's moderate case of bronchitis by way of explanation.

None of the ferry's 200 passengers and crew was injured in the accident, and by the next morning, the *A. Regina* had been abandoned in the surf. Two years later, most of the ship is still breaking up on the reef, and its boards, beams, sofas, curtains, carpets, lamps, and cables continue to wash up on Mona Island's beach.

The *A. Regina* should have been moved immediately by its owners, but it wasn't. Because the island is the primary nesting ground of an endangered species protected under our Endangered Species Act, the federal government should then have moved it. But it didn't. It wasn't as if jobs or an important dam had to be sacrificed to help the turtles. The ferry just had to be moved.

But as the wreck has crumbled and become more difficult—and more expensive—to move, the owners, their insurance company, and the various federal agencies that are supposed to protect the turtles have become more adamant about refusing responsibility for the problem.

Russell Wild is assistant media director of Greenpeace.

Saran Wrap for breakfast

Not that the turtles needed any more trouble. Their chances under ordinary circumstances of making it to maturity are about one in a thousand. As embryonic reptillettes in ping pong balls of shells nestled under the hot sand, plenty of unhatched sea turtles are gobbled up by beachcombing pigs and raccoons. If the turtles hatch, they join other survivors in a frantic several-hundred-yard waddle to the water, along which

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many will be scarfed up by dogs, birds, and crabs. Once at sea, they face larger, uglier predators. It will be several years before their shells harden enough to protect them and before their bulk won't fit through the widest jaws.

But they're never safe from human predators. Baby turtles wind up in curio shops encased in plastic, "Costa Rica" emblazoned on their bellies. Big turtles wind up in shrimp nets, as tortoise shell combs, or as soup.

If humans don't catch the turtles, human detritus still plagues the creatures. A yummy-looking jellyfish, for instance, might actually be a hunk of floating Saran Wrap or a six-pack ring, either of which can clog a turtle's windpipe or permanently lodge in its stomach. Turtles can't see well enough and, anyway, aren't bright enough, to know the difference.

Overhunting, pollution, and the destruction of their habitat has led to the rapid decline of the turtles in the Caribbean. Until recently, Mona Island was their only sanctuary. No pina colada beach bars, no condos, not a single Holiday Inn. In fact, no people at all. Mona Island is rocks, sand, coral, giant iguanas, bats, birds—and sea turtles that come to nibble on the seaweed and sponge that cling to the island's coral reef and once every two or three years to climb up on the beach and bury their eggs.

The island is so essential to the turtles' survival that it has been designated a "critical habitat" for one of the four species that live there, the hawksbill. The Puerto Rican Department of Natural Resources (DNR) considers Mona Island "virtually the only protected and undisturbed habitat in which Caribbean hawksbill turtle populations have a chance of recovering."

In theory, the turtles on the island should have plenty of government protection. On land, they are protected by the Department of Interior's Fish and Wildlife Service. At sea, they are the legal wards of the National Marine Fisheries. Since 1973, the Puerto Rican DNR has strictly maintained the 21-square-mile island as a natural reserve. Under such watchful eyes and with 50 miles of open sea between the island and the closest civilization, the turtles should be safe.

But the disintegrating *A. Regina* continues to wash up on shore and has made a deadly obstacle course of the beach. Turtles cannot move backwards. If trapped on their sides and front by debris, they die of exhaustion trying to escape. Turtles have swallowed oil leaking from the wreck, which can interfere with their breathing and digestion. Rocking atop the reef, the wreck is also destroying nearby sponges, the turtles' favorite meal. Some fear the ship might eventually destroy the entire reef, which would allow ocean waves to break directly on the shore, sweeping away much of the beach.

Turtle suit soup

At first it appeared the government would come to the rescue. After the *A. Regina*'s owners, the Italian Armatur Company, left the ship creaking on the reef for a week, the U.S. Army Corps of Engineers sent La Morte Burns & Company, Inc., the ship's insurer, a formal notice threatening to file suit unless the wreck was marked immediately with buoys and lanterns and then removed. The Corps was clear about its role in policing the removal of the ship. The *A. Regina* had run aground in navigable waters, it pointed out, and the Rivers and Harbors Act of 1899 gave the Corps the responsibilty for keeping all such waters clear.

La Morte Burns marked the wreck and hired a salvage company to haul the wreck off the reef. By April, the salvagers had succeeded only in breaking up the wreck even more and in pulling it tighter onto the reef. That was the end of the company's efforts.

The DNR sent several letters to the Corps, urging it to press the ship's owners or to move the wreck itself. Five months later, they got a reply. The Corps had changed its mind. It had decided, after all, that the *A. Regina* was not in navigable waters but stuck on a reef—and therefore not its responsibility. It would not remove the wreck.

With no funds of its own to remove the ship, the DNR tried to find another agency that would pick up the ball. The Justice Department promised legal action, but although its attorneys have now spent more than 300 hours researching the case against Armatur and La Morte, nothing has happened. The department says it is still hoping for an out-of-court settlement. "We have not wanted to be bulls in a china shop, merely tramping around, making noise and breaking things, without knowing what it is that will best serve the restoration of the turtle habitat," says Donald Carr, chief of the department's Wildlife and Marine Resources section.

The DNR also pleaded with the Coast Guard, which has responsibility for cleaning up oil spills. Shortly after the *A. Regina* crashed, the Coast Guard drained off all but 3,000 gallons of the ship's fuel, then sued Armatur to recover its costs. That case is still pending and may take years to resolve. The Coast Guard declared it had no responsibility to remove the wreck.

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In September 1985, the DNR decided it would have to sue Armatur to get the company to move the wreck. That case is also still in litigation, and will probably also take years to resolve.

The Puerto Rican Port Authority could have helped the DNR's case by withholding permission for Armatur to run a new ferry until it had moved the old one. Instead, it promptly gave the company a new license. Twice a day the *Dominica Viva* now chugs past the *A. Regina*. Asked how it is that the ship owners got the permit, the DNR's Gilberto Cintron, director of marine resources, says: "I don't know. We just didn't act quickly enough.... Things got lost in the bureaucracy."

By the end of 1985, the DNR had received sympathetic letters from the White House Council on Environmental Quality ("This is indeed a most unfortunate situation"), and the Environmental Protection Agency ("The vessel is posing an imminent threat to endangered sea turtles"). This supported the DNR's claim that the turtles were indeed endangered. But no help followed. The Fish and Wildlife Service and the National Marine Fisheries (NMF), which supposedly protect the turtles' every flipper stroke, also alleged they had no jurisdiction over shipwrecks.

Congress wasn't much help either. In December, an amendment was attached to a Senate appropriations bill that would have forced the Corps to remove the ship. It was dropped by the House, which has a rule that won't let it attach authorizations to appropriations bills.

Ferrying responsibility

"If I were the governor of Puerto Rico, I'd want the vessel off the reef—as long as someone else pays for it," says NMF's Charles Karnella. A general unwillingness to pay for the removal seems to be the unspoken cause of all the squabbling about who is responsible for moving the wreck. But the rationale is provided by the vagueness of the Endangered Species Act: "All other Federal Agencies [aside from the one with primary responsibility] shall utilize their authorities in furtherance of the purposes of this Act by carrying out programs for the conservation of endangered species."

The DNR and environmentalists say that the wording of the act gives discretionary authority to the Corps to move the wreck whether it is in navigable waters or not. They also contend that under the act the Coast Guard has a responsibility to help. Neither agency agrees.

Last October, Colonel Charles Meyers of the

THE WASHINGTON MONTHLY

Journalism Award

for December 1986 is presented to

Jonathan Kwitney
The Wall Street Journal

Infighting at the Center for Disease Control AIDS laboratory, Jonathan Kwitney shows, is causing its best scientists to leave, breaking the lab's momentum on identifying and tracking the virus. Petty rivalries have caused records to mysteriously disappear and whole experiments to go out with the trash, while lab administrators have stymied research that didn't fit the Reagan administration's bias against findings that could be seen as condoning bi- or homosexuality.

The Monthly Journalism Award is presented each month to the best newspaper, magazine, television, or radio story (or series of stories) on our political system. Nominations for any newspaper, magazine, or radio or television station in the country are welcome. The subject can be government in its federal, state, or municipal manifestation.

The award for stories published or aired in January will be announced in the April issue. Nominations will close March 15. Nominations should be accompanied by two copies of the story or stories.

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Government investigators—lots of investigators—simply had to take a January junket to the Caribbean to see the wreck for themselves.

Corps' Jacksonville, Florida office wrote: "It is the opinion of my legal staff that the Endangered Species Act provides no direct authority to the Corps of Engineers to remove the vessel."

Commander Mark Lavache, chief of the Coast Guard's pollution control branch, says the interagency cooperation section of the act can't be used to claim that the Coast Guard has any authority or responsibility beyond cleaning up possible fuel or oil spills. The act, he says, gives the Coast Guard no more discretion over removing the *A. Regina* than it does "to build a daycare center in North Dakota."

Who *is* responsible then? "I can't say," says the Corps' Phil Hall. "You'll have to talk to National Marine Fisheries or Interior people...or the Justice Department."

"It's an extremely gray area," says Paul Gertler, field supervisor of the Caribbean branch of the Interior's Fish and Wildlife Service.

Meanwhile, the hurricane season in the Caribbean had come and gone. Wind and surf had broken the back of the *A. Regina*, which would make it even harder to remove, and the damage sent new waves of debris onto the beach.

Collective chin-scratching

If no one was claiming responsibility for removing the wreck, everyone was perfectly happy to study the problem.

In January 1986, the National Oceanic and Atmospheric Administration (NOAA) commissioned its first study. For $17,000, the agency hired a contractor to do a biological assessment of the coral reef under the *A. Regina*. The Research Planning Institute's report concluded with this revelation: "The continued presence of the *A. Regina* constitutes a real threat to sensitive and valuable habitats and wildlife. Given the significance of this area and the potential for chronic and long-lasting impacts, the prompt removal of the *A. Regina* is recommended."

What's a study without a follow-up junket—particularly a January junket to the Caribbean? The Justice Department decided that investigators simply had to go to Mona Island to see the wreck for themselves. Lots of investigators. Representatives of the Army, Coast Guard, Navy, Justice, Interior, Commerce, and DNR all jetted off to the Caribbean.

The Coast Guard reported back that the degree of seepage of the 3,000 gallons of fuel still on board was not—by itself—a hazard to the turtles.

The Navy reported the price tag of everyone's inaction. By a number of early estimates, removing the wreck would have cost less than $1 million. The Navy surveyor now reckoned it would cost between $5 and $10 million.

NOAA then spent $2,000 for another study, scratched its collective chin, and decided that "further evaluation" was needed.

Then in March of last year, it looked as if the tide was turning. NOAA told the DNR that "the situation was elevated to Washington and there had been several policy-level meetings among high officials of the Army, Navy, Coast Guard, Justice Department, and NOAA.... It seems as though the U.S. Army Corps of Engineers has evolved into the responsible federal agency."

Joining the fingerpointing, Congress last October declared the Corps responsible for cleaning up the wreck. The new Water Resources Development Act specifically authorizes the Corps to "remove from waters off Mona Island, Puerto Rico, the abandoned vessel *A. Regina*."

But Congress didn't say how the removal was to be financed, which still gives the Corps the option of deciding when, even whether, to move the wreck. And it hasn't. Says the Corps' Col. Peter Cahill, "We're still working through the bill determining what needs to be done, determining priority order."

It has been two years since the *A. Regina* crashed. In spite of two lawsuits and numerous investigations and studies by seven federal agencies and Congress, in spite of general agreement that the crumbling ship threatens the reef and beaches of the island and therefore the survival of the endangered turtles, the wreck is still there, grinding the coral and strewing the beach with junk. ■

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When will the CIA get smart?

WOULD YOU BELIEVE... IRANIAN MODERATES?

by Marci McDonald

AT first, John Horton had passed it off as just another cocktail party anecdote. In the summer of 1983, over drinks at a fellow spook's dinner party in Washington, a visiting Republican fundraiser from California buttonholed him with horror stories about doing business in Mexico. The bagman knew Horton was a respected CIA veteran, a former Mexican station chief who had been called back from an eight-year retirement to take over the controversial post of National Intelligence Officer (NIO) for Latin America on the elite inter-agency panel that turned out the intelligence community's top-secret surveys known as Estimates. He also knew that Horton was working on an analysis of Mexico and the bagman wanted to make one thing clear: Mexico was on the brink of collapse. To illustrate his point, he somberly recounted the example of his Mexico City business partner who was so worried about the situation that he kept his private plane constantly warmed up at the airport in case he had to get out in a hurry.

The notion of a Lear jet purring on the tarmac, racking up boggling fuel bills, tickled Horton's instinct for the absurd, but he didn't give the story a second thought. Less than a year later, however, he recalled it as neither humorous nor harmless. For him, it had become ominously symptomatic of what he saw happening at the CIA. Furious and disillusioned, he had quit after CIA Director William Casey ordered a report on Mexico rewritten to depict that country as on the verge of toppling, a conclusion Horton believed there was no intelligence evidence to support. There were only allegations as flimsy as the Republican bagman's. Once, when Horton protested there was no data to back up the doomsday scenario, a senior intelligence official cited a story he had heard from his Mexican maid. As Horton recently wrote in the *International Journal of Intelligence and Counterintelligence*: "In the case of Mexico, a half-baked theory had taken on the authority of gospel."

Within the CIA it was no secret that a hidden agenda lay at the heart of the bitter debate over the Mexican Estimate. According to other intelligence officials, Casey was trying to win the official imprimatur of the intelligence community on plans to put the screws to a country that had become a meddlesome foreign policy opponent. At the time, the government of President Miguel de la Madrid was the most vociferous critic among the United States' Latin allies of the administration's Central American policy. It vehemently disapproved of aid to the contras and was a prime mover behind the Contadora process, the proposal for a negotiated peace with Nicaragua that was once again showing signs of life. With official proof that Mexico was a menace—another Iran on America's doorstep threatening even U.S. security with its instability—Casey reportedly hoped to win approval for economic and covert actions to destabilize its recalcitrant government. "There was a great deal of resentment of Mexico for standing in our way on Central American policy," says Horton. "There was almost a desire to see Mexico punished."

Horton has been one of the few CIA officials to quit in protest over the corruption of the intelligence process by what he terms the adminstration's "zealotry." Having already earned retirement, it was a luxury he could afford. In

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the two years since his exit, other top officials have left the agency in discreet disgruntlement over the direction Casey has moved the CIA. Still more continue to chafe angrily inside, bound by the prospect of pensions, or clinging to the belief that they can have more effect trying to change the system from within. But the disaffection among analysts is widespread.

"Central America is just one example," says Scott Armstrong of the National Security Archive. "The problem is pervasive—systematic and across the board."

Horton's experience was not simply a case of sloppy professionalism or facts running afoul of the preconceived notions of the Reagan administration and its businessmen friends. It is the most public example of what agency critics charge is an increasing and dangerous politicization of intelligence under Ronald Reagan.

Politicization of intelligence makes for far less riveting headlines than exposes on CIA guerrilla training manuals that advocate assassination or the agency's mining of Third World harbors. But the consequences are fundamental and far-reaching, and threaten to pervert the very mission of the CIA.

As the agency finds itself increasingly implicated in the Iranian arms scandal, the spotlight's glare is focusing on Casey's pell-mell plunge into clandestine operations—frequently against the advice of intelligence reports and his own deputies. But, as many observers of the tight-knit espionage club point out, one of the by-products of his billion-dollar investment in covert actions has been pressure on the intelligence community to come up with the evidence to justify the expense. In cases like the agency's secret war against Nicaragua, critics charge that intelligence has been tailored to fit the Reagan administration's obsessions. During an interview with *The New York Times* last year, Senator David Durenberger, then chairman of the Senate Intelligence Committee, took calculated aim at the CIA's Central American assessments. Said Durenberger: "Some of that stuff is cooked."

Some see in the current charges a sinister replay of the Vietnam era, when CIA analysts found Great Society policymakers openly hostile to facts about Vietcong strength that might have called U.S. military involvement into question—and, not incidentally, saved thousands of American lives. By refusing to see the world in terms that don't dovetail with its policies, the Reagan administration risks finding itself embroiled in another tragic foreign misadventure with potentially disastrous results. Says Jeffrey Richelson, an intelligence scholar at Washington's American University and author of *The Sword and the Shield*: "It can be very serious if you wind up invading Nicaragua because you're convinced they're going to invade 12 other countries."

Golden years

In the bowels of the CIA's fortress-style headquarters, planted on 219 barbed-wire-shrouded acres in suburban Langley, Virginia, a special passkey-activated elevator whisks the director of Central Intelligence directly from the parking garage to his seventh-floor penthouse suite. Using it, he avoids the agency's impressive marble entrance lobby, where a verse from the Gospel according to St. John is chiseled into one wall: "And ye shall know the truth and the truth shall make you free." That lofty resolve was the CIA's cornerstone when it was built on the ashes of World War II. It was founded as an intelligence, not an operations agency, in reaction to the worst intelligence failure in American history—the Japanese attack on Pearl Harbor. Without a centralized intelligence organization, the Fortress America over which Franklin Delano Roosevelt presided had not put together the hints that scattered U.S. military agents had been picking up about Japan's intentions. As soon as the war was over, Harry Truman moved quickly to fill that vacuum.

The CIA's mission was sketched out in only a few paragraphs of the 1947 National Security Act. It was so vague that certain factions of the intelligence community periodically have demanded a detailed charter, either to protect the agency or rein it in. But its fortunes have been left to fluctuate with the whims of succeeding administrations and the Directors of Central Intelligence (DCIs) charged with running it.

When William Casey took over in January 1981 as the most overtly political DCI in history—fresh from orchestrating Ronald Reagan's landslide presidential victory—the agency's fortunes were at an all-time low. During most of the previous decade, the image of the CIA as an omniscient, intrepid force of clandestine Hardy Boys had been exploded in a succession of humiliating headlines and public congressional hearings. The list of its failures and misdeeds had exposed the agency's invincibility as a myth. Even one of the CIA's most affectionate critics, Roy Godson, a professor of intelligence studies at Georgetown University, points out: "There never was a great CIA golden age when everything was brilliant and then it all fell apart." As William Colby, the

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DCI who found himself at the helm when the agency braved its most ferocious public storms, now admits, "We made mistakes in the fifties too. You just didn't hear anything about it."

But when the world finally did hear, during Senator Frank Church's 1975 committee hearings, the most shocking revelations demonstrated that the agency had swiftly expanded its original intelligence function to embrace a paramilitary zeal and had taken to toppling unfriendly governments around the globe. Yet in virtually every case where a covert action had ended in defeat or disarray, it seemed the CIA had chosen to ignore or skew its own intelligence.

From the beginning, the glamorous cloak-and-dagger veterans who thrived under General "Wild Bill" Donovan's wartime Office of Strategic Services (OSS) made no secret of their scorn for the caution of their deskbound counterparts. The CIA was barely a year old when it launched Operation Valuable: an attempt to overthrow Enver Hoxha's regime in Albania by parachuting Albanian refugees behind that country's mountainous Iron Curtain to stir up a local revolt. Frank Wisner, the agency's clandestine services whiz, spurned CIA analysts' reports that "a purely Albanian uprising at this time is not indicated, and, if undertaken, would have little chance of success." He leapt at the Albanian plot as a "clinical experiment to see whether larger rollback operations would be feasible elsewhere." That clinical experiment ended in defeat—and death for at least a dozen of the air-dropped Albanians—in part because the operation was compromised by the double-agentry of British defector Kim Philby. But in larger part, it was done in by the very conditions of which the CIA's own intelligence had warned.

Still, Wisner was not deterred. Within months, the CIA was plotting Operation Ajax, the overthrow of the legally constituted government of Iranian Premier Mohammed Mossadegh, who had just nationalized the Anglo-Iranian Oil Company. That brisk 1953 covert operation, which reinstalled the young, uncertain Reza Shah Pahlavi on the Peacock Throne, marked the CIA's first paramilitary victory. So emboldened was Director Allen Dulles by the triumph that before it was complete he had optimistically christened his next plot Operation Success: the ouster of Guatemala's democratically-elected president, Jacobo Arbenz, who had expropriated 400,000 acres of largely fallow banana plantations belonging to the United Fruit Company.

Those twin victories energized the operations branch for decades. But their success masked the fact that such operations exacted a price. To many inside Iran and Guatemala, the United States—and specifically the CIA—became synonymous with the vicious repression and torture practiced by the right-wing regimes it had installed.

The bloom did not begin to wear off the CIA's secret wars until the failure of Operation Pluto, better known as the Bay of Pigs invasion. Above all, that 1961 debacle underlined the risk of running covert operations out of the same executive suite as intelligence gathering. When President John F. Kennedy hesitated over whether to give the green light to the invasion, Allen Dulles showed Kennedy a reassuring cable from a U.S. Marine colonel with the Cuban exile brigade training at Puerto Cabezas, Nicaragua, who claimed that as soon as the rebels landed, their compatriots would rise up to join them and "melt away" from Castro. There is reason to doubt the authenticity of that cable, and the CIA's Office of National Estimates had reported no such possibilities of Cuban support. In his embittered memoirs, Dulles later admitted that the CIA had purposely kept Kennedy in the dark about the possibility that Operation Pluto might fail. As in many later cases, the agency hadn't wanted to risk undermining a covert action in which it had invested so heavily.

The CIA's top brass was not alone in taking a cavalier attitude towards information that failed to suit policy. As intelligence analyst Greg Treverton of Harvard's Kennedy School of Government has shown, when the administration made up its mind that Salvador Allende constituted a socialist menace in Chile, the Nixon White House appeared determined not to let facts cloud that perception. After a study of the intelligence at the time, Treverton concluded that, "It's pretty clear the estimates didn't conjure up a picture of Allende as the kind of threat that was used as a justification for the covert action."

Caught napping

In the tumultuous social landscape of the seventies, the public at home and abroad came to distrust the CIA as a sinister force. After revelations about its role in the Vietnam war—including its illicit domestic mail opening and dirty tricks against the war's opponents—spilled onto the front pages, national anger built to such a pitch that Congress responded with the Church and Pike committees to scrutinize the rogue elephant of Langley. But the public wanted more: strict limits on the agency's covert action capability.

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William Colby chose to appease that demand with secrets. In a trade-off some agency veterans have never forgiven him for, he cooperated with the committees, serving up documentation of the CIA's sins, including its plots to hasten the demise of Fidel Castro with Mafia hitmen and exploding cigars. "I took a conscious decision that if I tried to stonewall, the agency would be shattered," he says. "Congress was going to pass a law saying, 'Thou Shalt Never Do Any Covert Action Again.' " In the end, after what Colby calls "50 pages of sanctimony," the committee concluded that—if used only when "absolutely essential to national security" and when the operations "in no case" contradicted official U.S. policy—meddling in the internal affairs of other nations should not be outlawed. Colby, an old covert operations hand, draws himself up to full stature in his chair as he recalls it. "I consider that a full victory," he says.

The CIA that Admiral Stansfield Turner inherited after Jimmy Carter's election in 1976 was an organization that had been sorely discredited. But the furor over covert actions had in some ways provided a distraction from the more fundamental intelligence failure that the months of damaging testimony had laid bare.

In a 1975 *Harper's* article, former CIA analyst Sam Adams detailed how the Pentagon and the Johnson administration had purposely underestimated Vietcong strength during the war. They had both ignored and suppressed Adams's figures that, if revealed, would have forced Lyndon Johnson into a politically suicidal choice—either vastly increase the draft or pull out of Vietnam altogether. When Adams tried to correct the misguided figures, he met hostility, first within the CIA, where he received threats of dismissal, then later from the White House itself.

On top of Adams's revelations came leaks of secret testimony from the 1975 House Select Committee hearings on intelligence. They chronicled six other glaring intelligence flops—key moments when the CIA and its sister agencies were caught napping. With its vast resources the U.S. hadn't foreseen Ho Chi Minh's bloody Tet Offensive, a turning point in the war; the 1968 Russian Invasion of Czechoslovakia; the 1973 Middle East war; the 1974 military coup in Portugal; the overthrow of Archbishop Makarios in Cyprus; or India's 1974 nuclear test, the first proof that a Third World country had an atomic bomb. In the case of the Indian atomic blast, a Defense Intelligence analysis had reported only months earlier that the prospect of that nation pursuing a nuclear weapons program soon was "not likely." As for the surprise of the Yom Kippur invasion of Israel, the report concluded: "The Mid-East war gave the intelligence community a real test of how it can perform when all its best technology and human skills are focused on a known world 'hot spot.' It failed."

When Turner took over in the wake of that indictment, he concentrated on getting the CIA out of the covert operations business, firing several hundred agency employees in a purge known as the Halloween Massacre. The axe fell squarely on the secret warriors who had earned the agency its unsavory reputation. Within the corridors at Langley, the CIA's stripped-down budget and mission were blamed on Turner's noticeable lack of clout with Carter. But they were also a reflection of the times, when America was looking for reassurance that it was a moral nation, and when the CIA was a reminder of skeletons in the national closet. Jimmy Carter appeared uninterested in intelligence—that is, until fist-waving Iranian militants brought his presidency to its knees with their hostage-taking at the U.S. embassy in Teheran. Suddenly the U.S. was faced with the worst intelligence failure of its postwar history.

In part, the failure was the price of a long-ago covert action. After 25 years of propping up the increasingly imperious and overly sensitive Shah, the CIA had so much at stake in Iran that after the first energy crisis in 1974 it decided the agency couldn't risk offending him. As a result, the CIA avoided all contact with the Shah's opponents, the Shi'ite dissidents seething in the bazaar, for the two crucial twilight years of his regime from 1975 to 1977. The agency never saw what any casual tourist in Teheran could have predicted—the looming shadow of an ayatollah on the horizon.

That lapse was not just a case of failing to know what was happening beneath the gilded surface of Iran; it was also a case of not wanting to know. For under Carter, in a different way than would occur under Casey, intelligence had been politicized. According to the 1979 House Intelligence Committee report, there was "conscious suppression of unfavorable news, but indirectly. . . . From an analysts' perspective, until recently you couldn't give away intelligence on Iran. Policymakers were not asking *whether* the Shah's autocracy would survive indefinitely; policy was premised on that assumption."

That humiliating blind spot produced one swift result. With its national pride held ransom in Teheran, the American public wanted action. With that swing of the pendulum, Carter launched a volley of operations—all covert, in-

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cluding the botched Delta mission to rescue the embassy hostages that ended in technical breakdown and death in the desert. In the bitter Central American debate, few critics are aware that the intial covert action against Nicaragua's Sandinista regime was launched in the fading days of the Carter administration.

No sissies

It was into this abruptly changed climate that William Casey loped in 1981. With a mandate from the 1980 Republican platform as well as from Reagan himself, Casey set out to inject new muscle and life into the ailing CIA. For years the millionaire tax lawyer had been considered an "intelligence groupie," avidly frequenting the fringes of the espionage world, and, under Gerald Ford, sitting on the President's Foreign Intelligence Advisory Board. But he drew his main inspiration for the job from the undercover derring-do he had savored as one of "Wild Bill" Donovan's trusted OSS lieutenants in wartime London, dropping agents behind enemy lines and basking in Donovan's credo: "In an age of bullies, we can't afford to be sissies."

Casey personally supervised the revamping of both the CIA's intelligence and operations directorates, leaving other tasks to his deputy, Admiral Bobby Ray Inman, a respected intelligence professional who parted ways with him within a year and a half. Presiding over the biggest build-up of the intelligence community since the agency's inception, Casey more than doubled the total intelligence budget, pushing it toward an estimated $24 billion in 1986. With annual increases of up to 20 percent a year, the growth of the CIA's spending power outstripped the Pentagon's.

THE PERSONNEL PROBLEM

by Charles Peters

Edward Lee Howard was hired by the CIA in 1981, and in 1982 was selected by the directorate of operations for assignment to the most sensitive post of all, Moscow. During his training he was told the identities of CIA personnel in Moscow and of at least one important Soviet official who was spying for the United States. But in 1983, after being confronted with disturbing results from a polygraph test, Howard admitted having used drugs and committing some petty thefts, such as stealing money from vending machines and from a woman's purse on an airplane.

He was fired. He became a heavy drinker (he may have been one previously), committed an assault with a deadly weapon, and told two CIA employees he was thinking of defecting. The employees reported this threat to higher-ups at the agency. Yet Howard went unwatched until a year later, when he was identified through information supplied by the Russian defector, Vitaly Yurchenko. Even so, Howard was allowed to escape to Moscow, the Soviet official who had been our spy was executed, and several CIA agents were expelled from Russia.

Edwin P. Wilson was hired by the CIA in 1955. He worked for the agency for the next 16 years and then was hired by the Navy for one of its secret spy operations. He then became involved in the weapons business, in which he was associated with two old friends who rose to high positions in the CIA: Thomas Clines and Theodore Shackley. Shackley became the number-two man in the directorate of operations, and also was rumored to be in line to be director of the entire agency.

Yet Wilson was a terrible man. He became wealthy, and bought a large estate in the fanciest part of the Virginia hunt country even though his government employment paid him a maximum of $32,000 a year. He sold guns and bombs to Kadaffi that were used in terrorist operations. He twice tried to arrange the murder of the U.S. attorney who was investigating him.

Yet, not only was he close to senior CIA officials during much of this time, even after he left the Navy job and was running his own arms business, another CIA employee, William Weisenberger, supplied him ten miniature detonators of the most advanced design. Another CIA agent, Patry E. Loomis, moonlighted as a part-time Wilson employee. Wilson also worked with Frank Terpil, the former CIA agent who sold Kadaffi the guns that killed the young policewoman in front of the Libyan embassy in London.

How did people like Howard, Wilson, and Terpil get hired? How were Howard and Wilson selected for important assignments? Why was Howard so quickly given access to life-and-death information about our Russian connections? What kind of men were Shackley and Clines and Weisenberger and Loomis—all CIA employees, remember—if they were friends and associates with a man like Wilson? What are we to think of the fact that Clines, in a major way, and Shackley, to a lesser extent, turned up as participants in the abortive 1985-86 arms for hostages deal with Iran? What does all this say about the CIA and the kind of people who work for it? ■

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Casey went on a hiring spree, boosting manpower by one-third, returning it to the highs of the Vietnam era. Many of those lured back were the familiar faces from the agency's paramilitary past excised by Turner; in fact, some of them are now resurfacing in the Iranian arms scandal.

To observers, the most obvious mark of Casey's tenure was the dizzying expansion of the Directorate of Operations—the DO or, as it is euphemistically known in Langley, the "international affairs division." Under him, covert actions, which the Reagan administration preferred to dub "special activities," again boomed; six years later, an estimated 50 are now in full swing. By rebuilding the agency's status and morale, Casey won a loyalty that has made even those who are horrified at some of his later directives reluctant to criticize him. "When Casey came in, he returned everybody to the good old days," says a former CIA employee. "He generated a lot of nostalgia and everybody loved it. The trouble is that nostalgia was probably not the best thing for the agency, because, of course, the times had changed."

In a speech to New York's Metropolitan Club in May 1985, William Casey aired his global perspective. Privy to the most sophisticated data and analysis in the Western world, he nonetheless blamed "Marxist-Leninist policies and tactics" and the Soviet Union's "subversive war" for "famine in Africa, pestilence through chemical and biological agents in Afghanistan and Indo-China, war on three continents, and death everywhere." In a blanket indictment he charged that "in the occupied countries—Afghanistan, Cambodia, Ethiopia, Angola, Nicaragua—in which Marxist regimes have been either imposed or maintained by external force. . . has occurred a holocaust comparable to that which Nazi Germany inflicted in Europe some 40 years ago."

That world view, unsullied by fact or nuance and firmly rooted in World War II—merely substituting the Soviets for the Nazis as the villians—had won Ronald Reagan's ear. Casey saw his task as not simply supplying the president the information and analyses necessary to forge foreign policy; as a trusted conservative strategist and the first DCI ever awarded a seat in the Cabinet, he became a player in formulating policy. Some observers saw in that distinction an inherent conflict of interest. Was Casey representing the CIA's case to the president, or was he imposing the president's policy on the agency? Stansfield Turner had believed that "the ethic of intelligence is independence from policy," but Casey and his White House allies spurned that "traditionalist" view as out of date. They made no secret of their determination to make intelligence better serve decision makers. That radical shift occurred as Casey led the CIA into a key role at the cutting edge of secret diplomacy. Covert actions were becoming not just handmaidens to foreign policy, but in some cases like Central America, the foreign policy itself. As one congressional source with close ties to the agency notes, "The operations side has been driven by and large by Mr. Casey's view of the world."

That same world view also guided an overhaul of the analysis side of the CIA. From the age of 23, information had been Casey's game. In his first job, writing for a Washington newsletter that alerted businessmen to upcoming legislation, he learned how to couch the most complex legalese in simple terms. Later, he made his fortune by founding the Institute for Business Planning, publishing under his own signature dozens of handbooks on real estate strategies and the merits of mutual funds for corporate readers. At the time he took over the CIA, the handbooks were still netting him $300,000 a year in royalties.

His canny appreciation of how to package knowledge to meet the needs of an audience was particularly useful when he became director of Central Intelligence. The intelligence community—through the inter-agency National Intelligence Council that reported directly to Casey—turns out top secret National Intelligence Estimates (NIEs) aimed at a select clientele: a handful of top officials, Cabinet members, the Joint Chiefs of Staff and—the most important customer of all—the president.

But when Casey arrived in Langley in 1981, the estimate process was in disrepute. It was widely regarded as a cautious unwieldy bureaucracy filled with Ivory Tower idealists and bogged down by its own lengthy review systems. Its reports were frequently plodding and book-length, riddled with countless footnotes that recorded dissenting views of the various intelligence agencies. As secretary of state, Henry Kissinger had dismissed them as "talmudic documents" and made no secret of the fact that he filed them in the wastebasket.

Even Casey's most bitter critics credit him with whipping the estimate process into better shape. He reorganized analysts into regional groups for easier consultation, and extended their mandate to study a vast range of subjects the CIA had never bothered with, including terrorism and drugs, the Reagan administration's pet peeves. Haunted by the spectre of the CIA's intelligence failure in Iran, he elevated dissenting opinions

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from the footnotes to the main body of the texts. Most important, the NIEs became more frequent, increasing from a mere dozen under Stansfield Turner to a hundred a year. For a president who had no patience for complexity or ponderous briefing books, Casey served up intelligence in palatable mini-memo form with a summary of the estimate's conclusions at the top. Reagan, the consummate fan of a well-told yarn, also found his daily CIA briefings lively and anecdotal; Casey loved to cite Donovan's dispatches to Roosevelt, which were peppered with hyperbole and hype.

The director made no secret of the fact that he had a hand in revamping the estimates. When he took exception to one, it wasn't unusual for him to cancel his entire day's agenda and bark out a volley of stinging, even insulting, commands to his aides demanding fixes and rewrites. "We used to be in his office fighting things out," says Herbert Meyer, a onetime *Fortune* editor Casey brought in to manage the estimates. "Fighting over a particular paragraph."

One of Casey's most bitter battles occurred soon after his arrival. Then-Secretary of State Alexander Haig had just publicly denounced the Soviet Union as the fountainhead of global terrorism, an opinion Casey shared. Inspired by Haig's rhetoric, the DCI's office commissioned the agency's first terrorism estimate. The result failed to back up Haig's or Casey's thesis. Casey, who had the final veto on the National Intelligence Council, promptly ordered a series of redefinitions and rewrites. He took the estimate out of the hands of his national intelligence officer for terrorism and gave it to an influential newcomer, Lincoln Gordon, the very conservative former ambassador to Brazil. In case anyone missed his point, Casey issued a memo advising the analysts to read journalist Claire Sterling's just-published book, *The Terror Network*, which he thought had gotten the Soviet connection right.

Gordon's revised terrorism estimate still failed to prove the DCI's case. Casey didn't hide his fury. Admits Meyer: "We were dissatisfied with the final product." Still, Casey finally signed off on the estimate—some speculate because it was leaked to *The New York Times*—and analysts congratulated themselves that the integrity of the intelligence system had withstood political pressure. But four years later, Casey remained unconvinced by his own experts' assessment. "A Soviet connection may seem very shadowy to some," he declared, "but it seems very close to me."

Casey's penchant for seeing the sinister hand of the Kremlin behind most global events troubled his analysts. Jealous of their professional independence, many veterans have come to worry about the insidious effect of that mindset. "You hear a lot of people inside complaining that there's an anti-Soviet twist being put on everything," says Jay Peterzell of the American Civil Liberties Union. "What they fear is that it's becoming an institutionalized bias. People see that if they put that twist on things, it's a way of getting ahead."

Indeed, there have been visible rewards for those Casey found like-minded. After hiring Meyer—whose hard-line views had been on display as *Fortune*'s Soviet editor—he promoted him over much older and more seasoned intelligence professionals to manage the prestigious National Intelligence Council. Casey also brought in Fritz Ermath, a controversial hawk who had won a reputation on the Carter National Security Council for his implacable suspicions of Moscow as the council's national intelligence officer for the Soviet Union.

Some observers charge that Casey also imposed the administration's policy biases by subtler means. Analysts complain that they have been asked to count all Soviet trucks as military vehicles. Others have been ordered to pursue arcane statistics that would later appear in one of the president's red-scare speeches. "They're being manipulated by internal tasking," says Scott Armstrong. "If I'm told every week I have to do an update on weapons shipments to El Salvador, I don't have time to write about the strength of the contras. It puts me out of action for other things; it neutralizes me."

When Casey took over the CIA, conservatives scorned the agency as a dangerously liberal force in the volatile East-West strategic debate. Among Republican right-wingers, its long record of cautionary readings on Soviet military strength and intentions—consistently lower than the Pentagon's—had earned it a reputation as a tool of the arms control crowd.

Under Casey, the CIA's Soviet estimates have become more hawkish, although still not hawkish enough for some conservatives like Senator Jesse Helms. But they have been instrumental in justifying the biggest peacetime military build-up in American history. In the summer of 1985, with the Pentagon's budget under assault in Congress, the White House found it convenient to order the declassification of the final summary of the top-secret estimate on Soviet strategic forces, which it promptly published.

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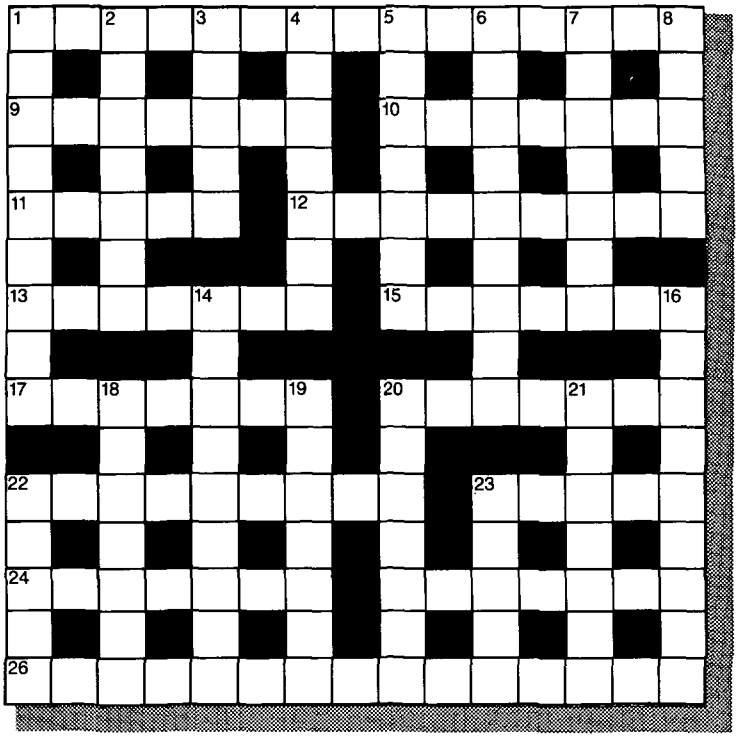
POLITICAL PUZZLE

by John Barclay

The numbers indicate the number of letters and words, e.g., (2, 3) means a two-letter word followed by a three-letter word. Groups of letters, e.g., USA, are treated as one word.



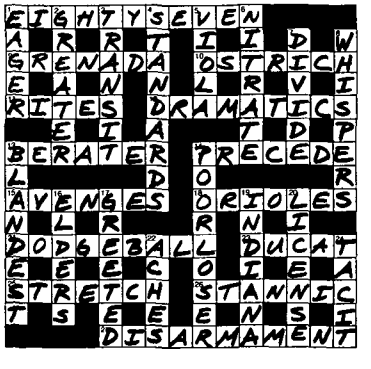
ACROSS

1. Wildly rustles the crazy Cabinet member. (9, 6)
9. More distant parent adopts rule first. (7)
10. Communication between parts, as in oil mixture. (7)
11. They follow family and shoe. (5)
12. Voter runs amok, changes the result. (9)
13. Most inquisitive stone is manufactured. (7)
15. Washroom construction milestone is perceived? (5, 2)
17. Work hard for trail in Virginia. (7)
20. Scrambled to guest exits. (4, 3)
22. Present made ride count. (9)
23. War capital greeting includes article and ring. (5)
24. Include confused worker in change. (7)
25. Saint, after morning, could be sober. (7)
26. Patented matters managed under 1 Across. (5, 10)

DOWN

1. Nasty feet tumbled over Reagan policy. (6, 3)
2. Below 100, raters troubled Georgia family. (7)
3. Developed those customs. (5)
4. Place to put down parrot one confused. (7)
5. The Queen supporting two fifties is in the affirmative for noisy mob. (7)
6. Hunt lathe oddly for food faddist. (6, 3)
7. Polishes carefully results. (7)
8. Regions in the horizon escape notice. (5)
14. After cotton measure comes up, speak publicly and fill in details. (9)
16. Food gives inner mutt indigestion. (9)
18. First bet not available after Nov. 1 for sensor. (7)
19. She is unalone when disturbed. (3-4)
20. A danger managed for Reagan but hardly a big one. (7)
21. Has product and no news distributed beyond Ohio. (4, 3)
22. American natives who are only 5/9ths Americans. (5)
23. Costume of graduate in sell-out. (5)

Answers to last month's puzzle:



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But experts agree that intelligence is being cut most disturbingly to fit the administration's passions about Nicaragua. Soon after Casey's arrival at the CIA, he dispatched his first chief of the National Intelligence Council's Latin American division to teach at Georgetown University, pronouncing him, according to one of his former staff members, not "activist enough." In his stead, the director appointed Constantine Menges, known for his rabid anti-Soviet articles. Menges proved so activist that one Senate Intelligence Committee staff member recalls him as "more of a propagandist than anything else." Agency professionals, who try to carefully insulate themselves from partisan policy interests, were horrified at being dragged up to Capitol Hill to back up Menges's extravagant claims of Soviet subversion. "They'd come back close to tears," remembers one of their colleagues. "There was a near mutiny in the Latin American division."

As early as two months after his inauguration, Reagan had signed a presidential "finding"—the declaration that since 1980 has required that Congress be notified of each covert action—authorizing a clandestine operation against the Sandinistas. By November of that same year, another "finding" expanded on the first to create the contras, a force of 1,500 Nicaraguan refugees, recruited and trained by the CIA with help from the Argentine military—for an initial price tag of $19 million. Those "findings" justified the contras' existence as a force to halt the massive flow of arms from Nicaragua to the leftist guerrillas in El Salvador.

But three years later, former CIA analyst David MacMichael attacked that claim, charging that at the moment the contras were created intelligence showed there was no massive arms flow to the Salvadoran rebels from Nicaragua. A one-time counter-insurgency specialist in Thailand who was brought into the National Intelligence Council in 1981, MacMichael protested to his superiors that he had called up all the files on arms traffic between the two countries and found it had virtually halted. He was assured that the agency had technical evidence—too highly classified for him to see. Besides, as one official told him, "Everybody *knows* there are arms coming into El Salvador from Nicaragua." "Bob," MacMichael says he replied, "what *everybody knows* isn't intelligence work."

Although the administration has failed to produce evidence to back up its claim, and despite the fact that it has since changed its official rationale for the contras' existence, some intelligence experts still question MacMichael's assertions. His vociferous opposition to U.S. policy in Central America has made him a controversial figure. His claims have also been undercut because he didn't speak out until 1984, a year after he had left the agency when his contract wasn't renewed because, he says he was told, his standards were "possibly too high."

But a full two years before MacMichael burst into the headlines, loud alarms over the CIA's Central American assessments had prompted Rep. Edward Boland's intelligence subcommittee to commission a study. Its report, while couched in cautious and balanced bureaucratese, was highly critical. Among other flaws, it found "colorful but imprecise language was substituted for necessary analysis" and decried "a few products whose primary purpose appears less to inform policy choices than to help mobilize support for policy." The Boland committee asserted that its purpose had been merely to "sound an early note of concern" over such politicization of intelligence. But from all reports, that early warning failed to deter Casey, who regarded congressional oversight as an uppity annoyance.

Mexican standoff

When John Horton was called back to the agency in the spring of 1983 to take over the post of Constantine Menges, who had been promoted to the NSC, he was a known supporter of the administration's policies in Central America. But early on he began to feel pressure. Summoned to an emergency meeting of the intelligence community to survey data on the Sunday after 7,000 U.S. troops invaded Grenada, he and his colleagues concluded that the administration's pre-invasion estimates on the number of Cuban soldiers stationed there had been widely exaggerated. But when they submitted their final scaled-down figure, one that has since been officially accepted, Herbert Meyer told Horton, "I think it stinks." Casey himself called the statistic "unimaginative." As Horton put it, "I can only suppose that the assessment was 'unimaginative' because of what it did not say"—that Cuban construction workers on the island didn't count as combat troops. An additional sin may have been that the figure happened to agree with one Fidel Castro had quoted. As an official pointed out to Horton, it couldn't be right: "Castro lies, you know."

Still, that incident hadn't prepared Horton for his experience on the Mexican estimate. At first the pressure was low-key. He found that Meyer had circumvented him by consulting directly with

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a junior analyst sifting Mexican intelligence. Meyer's office also repeatedly asked Horton's for rewrites. "They don't come right out and tell you what they want," says another former analyst. "Otherwise there'd be a rebellion. They say, 'Don't you think you should reexamine this part, put a little more emphasis on that?' " Casey reportedly felt the agency's view was "too narrow." Each request of Horton cited a story from the business and political cronies Casey regularly consulted. "That was the troubling part—these allegations and anecdotes that there wasn't sufficient evidence to support," says Horton. Each anecdote also meant another request to field officers to check it out, a costly process. When they didn't find the necessary evidence, Casey's office pronounced them out of touch. At one point Meyer commissioned an independent task force to study the question. The task force also failed to satisfy the director's expectations. Finally, Meyer took the offending estimate out of Horton's control and rewrote its conclusions himself. Horton protested, "Over my dead body," and gave his notice.

Meyer argues that he merely restored an original draft of the estimate—the one from an underling on Horton's staff whom he had personally supervised. He claims he wasn't politicizing intelligence; he was "de-politicizing" it, a charge Horton and the other onlookers scoff at. As chairman of a team, Horton forged an estimate from many sources, ultimately taking responsibility for its conclusions. As he later pointed out, Meyer's rewritten conclusions contradicted much of the estimate's main text. Of his final product, Meyer concedes: "We pushed it till we got it where we wanted it."

Meyer charges that Horton was a sore loser; he notes Casey had a right to change the estimates published under his signature. William Colby has also come to Casey's defense, admitting that as DCI he too had rewritten estimates that displeased him. But scholars point out that Colby was a veteran intelligence professional with a commitment to the agency's independence, not a former presidential campaign manager helping draft the government's foreign policy agenda.

At issue in the Horton case is not the right of the DCI to interfere with his staff, but the danger of that interference when he has become a partisan figure. That threat prompted Horton to make his concerns public. Like many agency veterans, he fears that turning the CIA into what Senator Durenberger has termed the White House's "political action committee" will eventually rebound on the agency itself, leading it into another round of congressional inquisitions and demands for legal restraint. "If any cans get hung around anyone's neck for Central America," he says, "it won't be Reagan's or Casey's, it's going to be the CIA's."

As Meyer points out, an NIE comes down to a question of judgment. Still, the judgments published in an NIE are no ordinary ivory tower theories; they form the guidelines for foreign policy and an administration's attitudes.

In the two years since Casey's pessimistic conclusions about Mexico, that country, needless to say, has not collapsed. But in addition to its longstanding problems with corruption, its troubled oil economy and staggering foreign debt, it has found itself facing a new problem: vituperative rhetoric from senior officials in the Reagan administration. Last year, during a congressional subcommittee hearing on Mexico under Senator Jesse Helms, Assistant Secretary of State Elliot Abrams, the administration's Central American point man, led an attack on Mexico that suggested things in the country could get out of hand. As the CIA's supposedly top secret assessment of Mexico's perils found its way into the press and the economic pressures on the country increased, a beleaguered President Miguel de la Madrid appeared to heed the warning, quietly but pointedly bowing out of his role as a leading Central American power broker. In fact, his retreat lasted until last December, when the Iranian arms scandal had so weakened the Reagan administration that he took advantage of the opportunity to revive the Contadora process.

Wagging the dog

"How can any man say what he should do himself," Jomini, a French strategist once asked, "if he is ignorant what his adversary is about?" For any government, good intelligence is fundamental. But intelligence boils down to what questions are asked of it. "If you change the nature of the business so the answers become a way to get the Pentagon its budget or funding for the contras," says Scott Armstrong, "then you've distorted the whole process of intelligence. The desire to condemn your enemy for public relations purposes becomes so much greater than understanding what's really going on."

When a country starts to see all terrorists as Soviet agents, it risks missing the festering hate of nationalists or religious fanatics. When all revolutions are dismissed as Kremlin plots, there is little hope of comprehending indigenous discontent well enough to capitalize on it. And

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when an administration has acquired such a stake in a covert operation like the contras that it faces what Allen Dulles once termed a "disposal problem"—what to do with 15,000 armed Nicaraguan exiles let loose on the Central American isthmus—it may no longer be able to afford finding out what Daniel Ortega is really thinking: is he building his massive army to export a revolution or because he is bracing for an American invasion?

Covert actions create their own momentum. "I was an operations officer in my past," says Horton. "If you're involved in a covert action, you get bound up in it and you want to see it succeed. You can lose your objectivity." Agrees MacMichael: "Once you get into operations, the operations tail begins to wag the intelligence dog. People want the operation to continue and they begin to look at anybody that might stand in the way as somebody to be kept misinformed."

Casey's preoccupation with the Reagan administration's policy themes may also have left the country blind in other key regions. Despite the massive build-up of intelligence resources, the CIA had not succeeded in penetrating Hezbollah, the Shi'ite Party of God in Lebanon; and, despite indications of a threat to the U.S. embassy in Beirut, it failed to predict the tragic October 1983 truck-bombing that killed 230 marines.

Robert McFarlane recently admitted to the Senate Foreign Relations Committee that U.S. intelligence on what was happening inside post-revolutionary Iran was so "woefully poor" the CIA had to rely solely on Israeli reports that claimed there were moderates in that country lobbying for renewed ties to the United States.

Two wildly conflicting CIA assessments on Iran within a year indicate another danger of using intelligence as a tool to justify a foreign policy. In May 1985, apparently anticipating the administration's secret arms sales, Casey commissioned a formal intelligence estimate from NIO Graham Fuller. It provided a rationale for overtures to Teheran by warning of increasing Soviet efforts to gain a foothold in the country. A year later, when the arms sales had failed to win the release of most U.S. hostages, a revised Special National Intelligence Estimate proclaimed the Soviet threat minimal. For a policymaker, such results produce confusion at best. Playing fast and loose with selected intelligence also tends to backfire on its architects. The Senate Intelligence Committee, instead of becoming convinced by the CIA's assessments on Central America, has learned to be wary of all intelligence on the area. The media in turn has learned to be increasingly suspicious of intelligence leaks that might end up transforming it into a pawn in the CIA's global disinformation campaigns.

As Robert Gates, Casey's deputy since early last year, takes over as director, he falls heir to a charged legacy. On its 40th anniversary, the CIA once more stands at a crossroads—discredited for the very covert actions that Casey chose to make the agency's chief focus, most of them, ironically, not very covert at all. Many at Langley are elated that Reagan chose to return the embattled agency to the hands of a career insider. But Gates owes his recent meteoric rise to the fact that he had become Casey's man and, in announcing the appointment, the White House made no secret of its assumption that he would keep the CIA on Casey's course. The question now is whether he has the strength and courage—when intelligence fails to bolster the president's well-known prejudices—to bring his boss bad news.

Still, there is hope in Gates's appointment that he will move the CIA out of the controversial covert actions business and back to its original purpose—gathering and analyzing intelligence. As a veteran of the analysis side of the CIA, who from 1982 to 1986 served as deputy director for intelligence, Gates has a natural commitment to that mission—and, according to most CIA officials, a built-up scepticism about clandestine operations. But he may have difficulty reversing the course of the CIA's runaway covert plots, most of which have become publicly acknowledged administration policy. If the government's capacity for covert actions does survive, the best way of assuring that officials aren't tempted to manipulate intelligence to justify them or cover up their failure would be to transfer the responsibility for paramilitary operations to another agency, preferably the Pentagon, which is already accountable to Congress.

In the CIA's stormy history, it has too frequently found itself the victim of knee-jerk emotions—automatically lauded by the right, automatically berated by the left. If a legitimate and broad-based political constituency is to be built with the aim of assuring a strong independent intelligence agency, free of the failures and mishaps that have plagued the CIA over the past 40 years, the first responsibility lies with the agency itself in restoring its own shattered credibility. No nation, after all, can afford to chart its policy course on fiction knowingly served up as fact; by telling decision-makers only what they want to hear, the CIA risks paying a price in which truth may only be the first—and the least serious—casualty. ■

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The mythology of corporate America

ROBERT REICH TAKES ON RAMBO

by Thomas J. Peters

American managers have been besieged for almost a decade by an endless parade of "how-to" books. All share the basic assumptions that organizational structures and other managerial tools must be changed, probably drastically. Policymakers have likewise been inundated with proposals ranging from massive funds for worker training to huge tax breaks to support quicker automation of our plants. While many of these proposals have merit by themselves, they have fallen far short of addressing the deeper problems of our increasingly troubled economy.

In *Tales of a New America*,* Harvard political economy and management professor Robert Reich, who has the ear of many of the 1988 Democratic presidential hopefuls, argues that these problems all stem from an inappropriate set of guiding myths that shape the national psyche. In particular, we tend to couch all of our debates in an "us" versus "them" framework—management versus workers/unions, U.S. firms versus foreign competitors, and so on. To cope with new economic interdependencies, we need instead, says Reich, to move cooperation to the place of honor, encouraging, for example, more cooperative ventures with foreign firms and more profit-sharing with the workforce in return for more workforce commitment.

Reich has performed a major service in moving beyond short-term policy choices and quarrels over competing management technologies. Quite simply, the debate as it is now posed obviously misses the mark—changes are not occurring fast enough to stave off serious economic deterioration in 75 percent of manufacturing industries, or in the service sector where, for instance, our recently formidable positive trade balance has disappeared.

Though the service Reich has rendered is substantial, his book has serious flaws. It is unnecessarily shrill in its denunciation of entrepreneurs, it overemphasizes the role of old and very big manufacturing firms, and it embraces significantly increased cooperation between Big Business, Big Labor, and Big Government without examining the down side of such major interest group collusion. In the end, one is left with a troublesome question. Must we wholly reject the rough and tumble of the marketplace in order to embrace cooperation on the grand scale Reich proposes?

Needed: a national lobotomy

Readers of Reich's 1983 book, *The Next American Frontier*, are familiar with his basic economic thesis, which is reiterated in *Tales of a New America*: "High wage economies can no longer depend on standardized mass production." To compete, says Reich, American factories must meet the demand of small market niches around the world for high-quality, complicated, specialized products. This means production systems flexible enough, and workers skilled enough, to change the product quickly to meet new consumer demands.

Reich further develops these themes in his new book: "The older industrial economies have two options. They can try to match the wages [that is, reduce], for which workers elsewhere are willing to labor, or they can compete on the basis of how quickly and how well they can [utilize

Thomas J. Peters is co-author of In Search of Excellence *and* A Passion for Excellence.

**Tales of a New America.* Robert Reich. *Random House/Times Books, $19.95.*

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labor to] transform ideas into incrementally better products." His principal emphasis shifts from managerial shortcomings (he coined the term "paper entrepreneurs" in his 1983 work) to labor's requisite new role in the emerging scheme. America has a high-wage economy. To keep it, we must turn labor from a commodity that we constantly attempt to reduce, to the antithesis of that—the chief source of added value. Historically, however, we have focused on more specialization for labor (many old plants have 80 or so job categories) or its outright elimination through large-scale automation.

Japan, says Reich, has followed a far different route. Americans, the inventors, have made money from transferring our Big Ideas, as Reich calls them, to the Japanese. The Japanese have made money in turn by perfecting production methods and selling the technology back to us in the form of high-quality products: "Thus, the emerging Japanese-American corporation allocates to the Japanese *the most important assets for the future* [my emphasis]—experience in making complex parts cheaply and well.... They learn how to make...small, incremental improvements in production processes and products that can make all the difference in price, quality, and marketability."

Reich's survival formula requires nothing short of a national lobotomy—a switch from adversarial to collaborative relationships in just about all business and industrial dealings. Over the years plenty of thinkers, and not just Marxists, have criticized America's exaggerated individualism and extolled the virtues of cooperation. But Reich's analysis, driven by the specific sources of our competitive disadvantage relative to the Japanese, is quite original.

In the workplace, Reich says, the switch can be accomplished if we adopt what he's labeled "collective entrepreneurialism." America's John Wayne/Rambo/Great Man/Big Idea entrepreneurs—e.g. Steve Jobs of Apple and Lee Iacocca—should be supplanted as our heroes by workers, every one of whom can demonstrate entrepreneurial behavior. Reich summarizes well: "Collective entrepreneurship involves increasing labor *value*. For managers, this task means continuously retraining employees for more complex tasks, automating in new ways to cut routine tasks and enhance worker flexibility and creativity, diffusing responsibility for innovation, taking seriously labor's concern for job security, and giving workers a stake in improved productivity via profit-linked bonuses and stock plans."

Technology addicts

Reich is not crying in the wilderness; a chorus of recent books and studies backs up most of what he says. First, traditional mass production is surely in its death throes. In *The Bigness Complex*, Walter Adams and James Brock conclude that "bigness has not delivered the goods." They support this conclusion with pages of analysis, summarizing a raft of empirical studies dealing with the relationship of scale to efficiency and innovativeness. Industry analysis also supports this argument. Maryann Keller, a leading auto industry analyst, says General Motors has been "nibbled to death, not chewed" by a number of smaller competitors. The auto market and most other markets have been "pulverized" by new technology that diminishes the role of scale and big competitors, say Michael Piore and Robert Sabel in *The Second Industrial Divide*.

Second, there is unequivocal support for Reich's analysis of the Japanese edge. Three other recent books come to similar conclusions. In *Kaizen*, Masaaki Imai asserts that "kaizen strategy is the single most important concept in Japanese management—the key to Japanese competitive success. Kaizen means [perpetual] improvement...involving everyone." James Abegglen and George Stalk Jr., in *Kaisha: The Japanese Corporation*, point out that the Japanese respond instantly to competitors' tiniest moves. The U.S. reacts naively, they argue. We do not worry about the host of small innovations in autos, for instance; we ignore them and assume

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that we can "leapfrog" with, per Reich, a Big Idea. This is the probably hopeless prayer of GM's Saturn project, which stands in such stark contrast to the successful incrementalist approach taken by GM in its joint venture with Toyota, the New United Motor Manufacturing Inc. (NUMMI) operation. *Kaisha* also shows how the Japanese achieve their edge through their labor practices: everyone is trained to do a number of jobs; twice-yearly bonuses based on profitibility amount to almost 50 percent of pay; it's standard procedure for managers' paychecks to get hit first and by far hardest when downturns occur.

Third, there is strong support for Reich's analysis of the power of wholesale workforce participation in the marketplace. The Ford Motor Company, short of capital in 1980 and therefore primarily dependant on employee involvement, has outdistanced its Big Three competitors, especially GM. In steel, Nucor Corporation, Chaparral Steel, and Worthington Industries are blending smaller scale, advanced technology, workforce participation, and high-variable compensation to produce remarkable results. The list of success stories brought about by worker involvement grows longer by the day.

But for all these anecdotes and analyses, the involvement of labor to make the difference is not widespread. Ross Perot observes that automation can readily become a "narcotic." At a Detroit Economic Club speech in January, following his firing by GM, he lambasted his former employer: "Despite spending $40 billion for robotics-equipped plants and other capital improvements, GM. . .went from being the low-cost producer to the high-cost producer among the Big Three." The *Harvard Business Review* reported a 1986 study of half the flexible manufacturing systems installed in America and Japan in which the American systems were described as a "desert of mediocrity."

The conclusion is bleak. The notion of profit sharing, gain sharing, and employee share-ownership have been around for decades. Procter & Gamble, for instance, introduced profit sharing a century ago. President Cooper Procter stated at the time: "The chief problem of big business today is to shape its policy so that each worker will feel that he is a vital part of his company, with a personal responsibility for its success and a chance to share in the successes." In 1958, Louis Kelso and Mortimer Adler wrote *The Capitalist Manifesto*, providing the basis for employee share ownership plan legislation (ESOPs) enacted 16 years later. Yet today fewer than 20 percent of the workforce have salaries tied to productivity and profits, and fewer than 15 percent own shares of stock in their company.

The American worker knows the score, as a Yankelovich poll of Japanese and American workers reveals. Asked how many agreed with, "I have an inner need to be the best I can regardless of pay," American workers, surprisingly, outscored the Japanese. However, when asked the much more practical question, "Who would benefit most from an increase in [worker] productivity," the tables were turned. Some 93 percent of Japanese workers thought that they would benefit while only 9 percent of American workers felt that way.

Mythbusters

Procter's imaginative incentive scheme didn't start a revolution. Senator Russell Long's ESOPs didn't either. And neither have the books to date by Reich or those by authors (and their thousands of emulators) I have cited. The reason for the slow diffusion of ideas with such demonstrated worth, Reich argues, is that our most deeply held assumptions are out of whack. In addressing these underlying, suicidally restraining forces, Reich makes his most original contribution. "Our morality tales," he says, "are increasingly at odds with the new challenges we confront. . . . The prevailing versions do not speak of mutual obligation. They neither celebrate joint gain nor forebode reciprocal loss."

Reich identifies several predominant myths. In international dealings, a Mobs at the Gates myth prevails in security and economic affairs. It's America as "beacon light" versus "barbarians that lurk 'out there.'" Isolation is a by-product. Next in line is the myth of the Triumphant Individual; we are "mavericks all," seeking via individual opportunism to climb over others to the top. Yet, Rot at the Top is the dominant mythic image of our leaders (business and government) that we carry with us; cooperation among them, we feel, only becomes collusion aimed at the accumulation of power. Through each of these myths we view life as combat.

Reich's imagery is frighteningly on the mark.

Carrying a combatant's mindset through a world increasingly marked by interdependencies has perilous consequences. So, how big a change in our mythology is needed? If we are to have the necessary revolution on the shop floor and in attitudes between suppliers and buyers and between companies involved in joint ventures overseas, etc., it must be based, says Reich, upon, a new core assumption that replaces opportunism

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with trust among owners and workers: "Collective entrepreneurialism requires mutual investment."

Reich provides a Chinese menu of prescriptions. His call for massive training and retraining, the centerpiece of *The Next American Frontier*, is renewed, and he adds a hearty plea for substantially increased employee ownership and productivity-based incentive plans. But his main plea is for a change in the nature of the American dialogue and the creation of new myths: "To the extent our domestic economy is animated by this new vision, the central problem of economic policy becomes less how to discipline drones [his term for our disenfranchised workforce] or tease the last ounce of genius out of lone entrepreneurs.... The challenge is to create settings in which obligation and trust can take root, supported by stories that focus our attention on discovering possibilities for joint gain and avoiding the likelihood of mutual loss."

The best of both

I concur with the core of Reich's economic analysis. I accept his specific suggestions. Above all, I applaud the depth of his new analysis since quick fixes have neither matched the gravity of our problems nor halted the acceleration of our decline. Nonetheless I have several major objections to Reich's latest work.

Emphasis on big manufacturing. I can't help but conclude that most Democrats, Reich included, think the American economy consists only of GM, Exxon, and midwestern manufacturing companies with $5 billion or more in revenues. Yet 75 percent of us now work in the service sector. And when it comes to size, a recent *U.S. News & World Report* story on the Los Angeles basin's economic vitality attributed it in part to the astounding fact that "some 90 percent of those employed...work in small firms with fewer than 50 people that can change course fast to stay competitive."

Miniaturation technology is making it possible for small and mid-sized manufacturers to achieve economies of scale at a tiny fraction of the former minimum viable size. For a quarter million dollars, "minilabs" can do photo finishing that only Kodak could do a dozen years ago. In steel, the integrated mill is dying, while the "mini-mill" surges, and now "micro-mills"—which may well be peppered along the highways every 25 miles—are setting the industry abuzz. In computers we are proceeding from "minis" to "micro-minis." Even on liquor store shelves the products of "micro-brewers," such as San Francisco's Anchor Steam, are shoving venerable Budweiser toward the rear.

There is no question that the choices made by GM, the remnants of U.S. Steel (now USX), IBM, et al., are very important to our future. But they are, increasingly, *not* our future—whether the issue is manufacturing or service.

Disdain for entrepreneurial enterprise. Barry Bluestone's and Bennett Harrison's *The Deindustrialization of America* dwells on the plight of some 30 million displaced workers. The authors, who are well to the left of Reich, conclude that nothing less than substantial public ownership of enterprise is required. Reich is a moderate by those standards but is light years to the left of George Gilder, who in his *The Spirit of Enterprise*, completely ignores, to his discredit, this wrenching dislocation in his flowery paean to entrepreneurs. But I surprise myself by being at least as sympathetic to Gilder's analysis as to Reich's.

Is it impossible to support unstintingly the specifics of Reich's conception of "collective entrepreneurialism," which he implicitly directs at large manufacturers, and still acknowledge the crucial role of the more entrepreneurial enterprise, from tiny start-ups (run by Gilder's Rambo-like mavericks) to the $50-500 million firms chronicled in Don Clifford's and Dick Cavanaugh's *Winning Performance: How America's High-Growth Mid-Sized Companies Succeed*?

As Reich says, waiting for the Big Idea to leapfrog competitors and save us is stupid, especially for the sizable firm. This approach has crippled former stalwarts from GM to National Semiconductor. On the other hand, both the small and mid-sized firms are making a contribution to the

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Surely somewhat bridled competition is preferable to unbridled cooperation among Big Business, Big Labor, and Big Government.

economy and are a principal force in shaping up our sluggish big firms.

In older industries, upstart firms have "industry leaders" by the ear. Chrysler has pushed GM to "de-integrate" by beating it on cost by $500 a car. Even in Japan, Nissan and Toyota have been spurred by the smaller Honda.

IBM is faced with daunting problems. Japan Inc. is not chief among them. Rather, Cray in the super computer business, Digital in the minicomputer and networking arena, and Apple and Compaq at the bottom of the line lead a lengthening parade of newcomers revolutionizing that industry. In semiconductors, National and most big firms have lost their way because of their reluctance to focus on manufacturing and, indeed, collective entrepreneurship. Yet, the American semiconductor industry *is* vital—led by a "third wave" of more than 125 start-ups since 1977.

This story is repeated in chemicals, textiles, biotechnology, chocolate chip cookies, convenience foods, health care, and financial services. The number of business starts and the jobs they've created is record-breaking. More important, in even the highest of technology arenas, where substantial capital investment is required, new and mid-sized firms are forcing Reich's giants to reform—although the pace is pathetically short of what's needed.

Reich's failure to address the role of the smaller firms is particularly surprising, since these firms are most often the ones on the leading edge of experimentation in employee share-ownership, gain sharing, profit sharing, and employee involvement in general—from failed People Express to stellar Apple to my favorite trio of steelmakers, Nucor, Chaparral, and Worthington Industries.

The average wage at Worthington, where everyone is on salary, is pegged at about 25 percent above the comparable geographic area manufacturing average; on top of that, a quarterly profit-sharing bonus (based upon a predetermined formula) usually amounts to 80 percent of the base wage. At Nucor, a 60 percent weekly bonus, based upon small group productivity, is the norm; when times get tough, in good Kaisha style, managers get the first and severest pay cuts. Neither firm has had a layoff in decades.

While these mid-sized firms are hardly typical, they nonetheless represent the best models of "collective entrepreneurialism" that can be found anywhere. I wrote a column last year about a small Wisconsin sausage maker who was successfully implementing novel participatory management schemes. I was delighted to learn that my column inspired visits by large groups from 3M and General Mills. Likewise, after a recent discussion of extraordinary service at a Dallas Cadillac dealership, I was heartened to hear that a group of Procter & Gamble plant managers had visited the dealership. To write off, denigrate, or ignore these firms as a group or as a collection of exemplary role models is a major, continuing failing of Reich's.

The service sector ignored. Reich gives the appearance of being among the ranks who imply that the service sector consists of only hair-care and pizza establishments, conveniently ignoring Federal Express, Citicorp, Humana, AMR (American Airlines), American Express, etc., in the process.

The service sector is not a dead end. Brian Quinn and Christopher Gagnon, in a recent *Harvard Business Review* article, show that in the service industries, value-added per employee and productivity improvements are as high or higher than in manufacturing; and especially surprising, capital stock per employee is higher.

Thus Citicorp is as much a computer company as a bank, with a satellite- and electronic-based global trading and finance network at the heart of its operations. And while Federal Express is a paragon when it comes to pay, profit sharing, and employee involvement, an equal determinant of its competitive edge is its extraordinary use of technology. Thanks to its sophisticated COSMOS computer system, Fed Ex can offer a customer his money back if his package's precise location can't be pinpointed in 30 minutes or less. In shaping new economic myths, the service sector must be considered.

Whither the manager? Reich savagely, and correctly to my mind, attacks the prototypical, numbers-oriented, emotionless American manager, middle or top, in *The Next American Fron-*

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tier. But his new firm—even if it is based upon the principles of collective entrepreneurialism—will include managers. A new role for the manager, from supervisor to chief executive, is desperately needed. The manager as seeker of change, facilitator in the workforce, destroyer of functional barriers within the firm, and arranger of partnerships outside it must replace the manager as cop and protector of a narrow functional fiefdom. Reich evades this entirely.

Competition stifled. Reich wants to replace the Rot at the Top myth that says our leaders collude to gain power with one that stresses their ability to cooperate. The problem is that cooperation among big special interests almost invariably *does* degenerate into collusion. The product of renewed big union/big government/big business cooperation is already on gruesome display: the non-legislated protection for steel, textiles, autos, and now semiconductors that is hastening each industry's decline. The makeup of the new 100th Congress suggests that more such "cooperation" will be coming.

Whether the instigator is corporate raiders, the Japanese and Koreans, or the emerging small- and mid-sized firms, it seems clear that only competition is forcing change in our dinosaurs. Many side effects of competition are negative, and urgently need to be addressed. Yet competition remains a better purgative than the baleful progression of cooperation toward collusion. Surely somewhat bridled competition is preferable to unbridled cooperation among the three Bigs.

Either/or? Does embracing collective entrepreneurialism necessarily mean slapping down entrepreneurs? Reich seems to think so. An insistent, almost vitriolic, tone pervades his demand for the *replacement* of opportunism and the myth of the Triumphant Individual with collective entrepreneurialism.

This is clearly wrongheaded. We have, and need to accommodate, both myths. It's the Triumphant Individuals behind America's best mid-sized companies who have created the models of collective entrepreneurialism that Reich rightly admires. The Triumphant Individual has always shared the stage with myths of collectives; the small-town, barn-raising, volunteer fire department spirit has roots as deep in the American psyche as those from which individualism springs. The trick is to tap the best of both.

Reich also seems to suggest that the Japanese follow a pure model, closely akin to his vision of collective entrepreneurialism. Here Reich badly misreads the Japanese situation. Yes, kaizen—constant refinement—may well be the principal management tool behind Japan's corporate success; it is a way of life that goes beyond business, in which cooperation and group spirit are prized above individual performance.

However, competition in Japan, especially in the home market that we don't observe on a day-to-day basis, is much more intense than U.S. competition. Abegglen and Stalk focus on the consuming preoccupation that Japanese firms have with their competitors. Nakasone adviser and management expert Kenichi Ohmae recently told *Time*, "The Japanese [company] winners look more like survivors of a demolition derby than meticulous strategic planners." Yet another unsung part of the Japanese story is their new business start-up (and failure) rate, which has been higher than ours since World War II, featuring, for instance, well over 100 small robotics start-up companies. The Japanese wholeheartedly embrace cooperation—and competition. I think this is also possible in the U.S.

What to do first? To even think about alternative governing myths for a nation is daunting. To ask Reich to specify precisely how to change the structure of myths is perhaps too much. But Reich presents us with a conundrum and then does little to help us. He asks us, correctly I think, to consider a new intellectual and emotional framework for everything from interpersonal to economic to security dealings. Such a shift would surely take decades. In almost the same breath, he repeatedly reminds us that time is not just running out, but essentially has run out. If the problem is as pressing as he says, and I believe it is, then what are we to do in the next 12-60 months? Reich is maddeningly vague, beyond suggesting that we all sing the praises of models of collective entrepreneurialism when we come across them. Having raised such a challenge and then underscored its urgency, he would seem to owe us at least the outline of an agenda to deal with it.

Reich has laid down a monumental challenge. His analysis of the problem is brilliant. His suggested specific changes within the firm and regarding its dealings with others are sound. His shift of the debate beyond quick-fix management devices and annual policy choices is path-breaking.

Yet in the end, one feels cheated. Reich has posed his vision of collective entrepreneurialism in opposition to more vital and contentious models of competition. He has thus snared himself in the "us" versus "them" thinking that he has asked us to reject. ■

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WHO'S WHO in the Administration

Donald Regan won his battle with **Nancy Reagan** over whose candidate would become the new White House press secretary. Mrs. Reagan supported **Sheila Tate**, her former press secretary, or **Gary Shuster**, a former CBS reporter, but her husband chose Regan's man, **Marlin Fitzwater**. Yet the First Lady emerged victorious in the struggle over who would write the state-of-the-union address. The president chose the first draft of the writer she wanted, **Ken Khachigian**, who was **Ronald Reagan**'s original White House speech writer. The president rejected versions by **Tony Dolan** and his regular White House speechwriting staff and that of Regan's right-hand man, **Dennis Thomas**. Thomas was so sure his version was going to be used that he briefed the press on it, and later had to call up and sheepishly announce that his briefing was "inoperative." And what is one to make of the fact that three of Regan's four top aides are leaving, or said to be leaving? **Alfred H. Kingon** will become U.S. Ambassador to the European Community, **Thomas Dawson** is rumored to be the future ambassador to Costa Rica, and **David Chew** is just said to be looking....

Because Colonel **Oliver North** did not have a private meeting with Reagan, most people assume he could not have told the president about the Iran-contra arms deal. But this is not necessarily so—by any means. White House aides who have a private message they want to deliver to the president, but whose only access to him is in meetings with other officials, quickly acquire the knack of lagging behind as the meeting ends and the others go out the door to say, "By the way, Mr. President, I just want you to know that I've taken care of.". . .

A surprising new White House adviser has been **Robert Strauss**, the former chairman of the Democratic National Committee, who was recruited by **Michael Deaver** to help the Reagans figure out what to do about Irangate....

Speaking of Deaver, a new book by **James Beggs**, the former NASA administrator, tells how Deaver called him to complain that **Christa McAuliffe** was saying too many nice things about the Kennedys. He also complained to Beggs about the use of Pepsi-Cola on the shuttle. Deaver was representing Coca-Cola at the time....

Robert M. Gates, the new head of the CIA, is an extremely capable bureaucrat, a skilled and intelligent paper-shuffler and boss-pleaser. But the CIA is a bizarre mix of personnel—competents, turkeys, and lunatics. Because of the agency's compartmentalization, Gates has had little contact with its covert action side and may not have the knowledge about its personnel needed to rein in those who are always threatening to get out of control....

In

WHITE HOUSE

Assistant to the President for Policy Development—**Gary L. Bauer** was undersecretary of Education.

Senior adviser to National Security Adviser—Lt. General **Colin L. Powell** was senior military assistant to Frank C. Carlucci when he was deputy secretary of Defense.

STATE

Undersecretary of State for Security Assistance, Science, and Technology—**Edward J. Derwinski** was former Republican representative from Illinois.

Counselor—**Max M. Kampelman** remains ambassador to U.S. office for Arms Reduction in Geneva.

Ambassador to the European Community in Brussels—**Alfred H. Kingon** was assistant to the president for Cabinet Affairs.

Ambassador to the Philippines—**Nicholas Platt** was executive secretary to Secretary of State George P. Shultz.

Ambassador to the Soviet Union—**Jack F. Matlock Jr.** was chief Soviet specialist on the NSC.

AGENCIES AND COMMISSIONS

Director of Central Intelligence—**Robert M. Gates** was deputy director of CIA.

Board Member, Federal Reserve—**Edward W. Kelley Jr.** was a Houston investment advisor and businessman.

Out

WHITE HOUSE

Director of Communications—**Patrick Buchanan.**

Assistant to the President for Political and Intergovernmental Affairs—**Mitchell E. Daniels Jr.**

Deputy Press Secretary—**Peter Roussel.**

AGRICULTURE

Assistant Secretary for Agriculture—**Robert L. Thompson.**

AGENCIES AND COMMISSIONS

Director, Central Intelligence Agency—**William J. Casey.**

President, Government National Mortgage Association—**Glenn R. Wilson Jr.**

Director, Small Business Administration—**James C. Sanders.**

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POLITICAL BOOKNOTES

Let's Put America Back to Work. Senator Paul Simon. *Bonus Books, $14.95.* Rebuilding liberalism may involve not dreaming up gimmicky "new ideas" so much as rediscovering solid old ideas that have been foolishly discarded. Senator Simon's book thoughtfully champions the most important of these old-new ideas, the idea of guaranteeing every citizen a job through a WPA-style public works program: "[W]e have a choice of paying people for doing nothing [through welfare and unemployment compensation] or paying people for doing something." The argument is so simple one wonders why Simon is the only big-time politician in a long while to have hit on it.

Simon's guaranteed jobs would pay the minimum wage, or 10 percent over welfare benefits, whichever is higher, for 32 hours of work a week (leaving a day to look for private sector work). Medical and Social Security coverage would be part of the deal. Work projects would be selected by local business-government-labor councils; when a project was finished, workers would move on to the next one. This is designed to avoid the experience of the mid-seventies CETA program, when workers were often assigned to existing bureaucracies where they either displaced regular employees or simply padded the workforce, making no apparent difference in public service.

Simon has clearly thought about the complexities attending his simple idea. He would, for example, allow 18- to 25-year-olds to claim the jobs only if they'd graduated from high school. Dropouts would have to get their equivalency diploma first. Simon is also laudably blunt about the need to "fire those who don't show up, or do not work when they do show up." That, he says, "may not be uncommon."

A few nits. First, Simon presents his plan as an alternative to welfare, but he fudges on the crucial, difficult question of whether to require single mothers (the vast majority of adults on welfare) to take his guaranteed jobs. Simon leaves that "up to the states," although he notes that "eventually most states will probably require that all but mothers with children under two or three must sign up."

In fact, the conventional wisdom is moving rapidly beyond this position. Mario Cuomo may be the tribune of old-style liberalism, but his welfare task force recently recommended that mothers be allowed no more than three years' cash "transitional" assistance *even if they have another baby.* During those three years, they would be required to work or train half-time. After the three years, they'd have to take a public service job. Unfortunately, the Cuomo group's excellent report has pointedly not been embraced (as of this writing) by at least one person, namely Cuomo.

Second, there's the question of wages. By restricting his minimum wage guarantee to 32 hours per week, Simon hopes to maintain an incentive for people to take 40-hour private sector jobs. But then, in order to make his WPA jobs attractive to the welfare mothers, Simon offers them more—110 percent of their benefits. The problem is that, especially for mothers with several children, welfare benefits are already way above the minimum wage in high-benefit states, which also happen to be the biggest states (New York and California). In California, a mother with three kids can get $698 a month in welfare (not counting food stamps). That means Simon would pay her $767.80 for 32 hours of work, or $5.53 an hour, though she'll be doing the same work as others making $2 an hour less. A secure, $5.53 government job, alas, is likely to be better than any private sector job most welfare mothers can get. They'll have little incentive to look for private work.

Simon's higher-pay-for-more-children scheme doesn't seem fair (especially to mothers slogging it out for $3.35 an hour in the private sector). A better solution to the dilemma would be to pay all the neo-WPA workers the same minimum wage, but then use the tax system to supplement the wages of all low-wage workers (including private sector workers) who are heads of households.

But that's expensive, and although Simon admits his plan will cost money, he doesn't admit it will cost a lot of money. Specifically, he estimates a net cost of only $8 billion a year, before subtracting the value of all the public works and services. That's quite a

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bargain. But Simon puts the cost of each job at $6,000 in wages and $2,000 in administrative overhead. The $2,000 is supposed to buy counseling, day care for mothers, tools, building materials, and supervisors for the work projects. Forget it. The true cost would be far higher and it's better to say so up front.

Finally, there's the toughest political question Simon faces, namely opposition to his plan from public sector unions worried about being displaced by cheaper WPA workers. Unions are the answer to the mystery of why the Democrats dropped the WPA idea in the first place. Simon hopes to appease the unions by giving them a veto in the local councils that decide on work projects, and by promising them lots of supervisory jobs and other high-wage work building highways, sewers, and the like, in a separate program.

But the unions, especially AFSCME, were paranoid enough about job competition in the late seventies to make sure CETA workers didn't perform anything particularly useful, even though labor didn't have an explicit veto over projects. Now, take a look at some of the projects Simon proposes for his WPA: "Repair Sidewalks." AFSCME might have something to say about that. "Tutor grade school and high school students who need special help." Not if the National Education Association can help it. "Construction of a bicycle path." Better check with the Building and Trades Division of the AFL-CIO.

Well, Simon's a better politician than I am, and he thinks his tactics will work on enlightened unionists who realize that the quasi-full employment provided by a guaranteed jobs program would give an across-the-board boost to wages. I suspect a more pointed assault on union narrow-mindedness would encourage such enlightened behavior, but there's room for both Mutt and Jeff here. If the ancient goal of guaranteed jobs is ever achieved, it will probably be by a leader who stresses its positive, upbeat virtues after others have pointed out the nasty, necessary, screw-the-unions and make-the-welfare-mothers-work angles. Maybe Simon's the one. Right now he's the only one.

—*Mickey Kaus*

Escape of the Guilty: A Trial Judge Speaks Out Against Crime. Ralph Adam Fine. *Dodd, Mead, $17.95.* Fine lucidly sets forth various ways in which our judicial system is not merely failing us but actually "seems more intent on finding reasons to let admittedly guilty criminals escape than in doing justice for society." He writes in a measured, highly readable style, with a wealth of examples from his experience on the bench. Fine has been a Wisconsin circuit court judge since 1979. "I suspect that this will be a controversial book," Fine notes at the end. Let us hope that it is at least widely read and its lessons absorbed.

Fine addresses several important areas of judicial breakdown, notably plea bargaining and the perversion of various "exclusionary rules," such as the one that was originally intended to prevent coerced self-incrimination ("No person. . . shall *be compelled* in any criminal case to be a witness against himself"— Fifth Amendment) but is now frequently used to exclude voluntary confessions.

The excuse for plea bargaining is usually administrative necessity: without it our courts would be hopelessly clogged. But this has been proven false in Alaska, where a resolute attorney general abolished plea bargaining in 1973. Under the new regime, the disposition time for felonies in Anchorage, declined from 192 to 90 days. The sentences were also more severe. Plea bargaining, as Fine shows, is mostly institutionalized laziness—helpful to prosecutors who would rather spend a week on vacation than in the courtroom, and of obvious benefit to defense lawyers.

Plea bargaining is degenerating into the "one-law-for-the-rich-another-for-the-poor" rightly detested by liberals. "Courts in Florida and North Carolina recently permitted the ultimate *quid pro*

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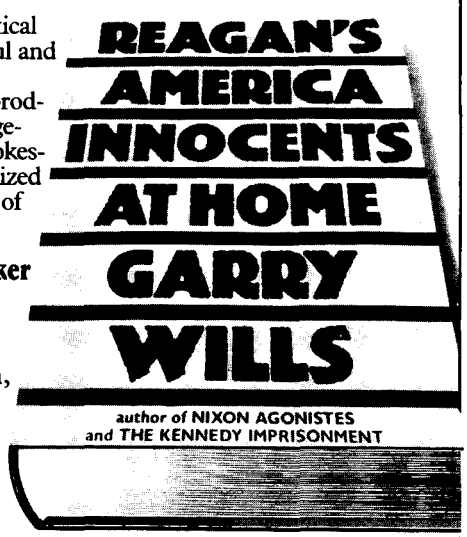

DOUBLEDAY

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quo," Fine writes. "Defendants accused of violating drug laws were placed on probation following their 'donations' to local governments of hundreds of thousands of dollars."

Judge Fine is particularly good on problems arising out of the 1966 Supreme Court (5-4) ruling in *Miranda v. Arizona*. The "essential thrust of the decision," he writes, was that criminal investigation was no longer to be the pursuit of truth (with appropriate safeguards to prevent extortion of confessions), but rather a contest "in which one player, the police, would have to alert the other player, the suspect, if and when he was about to make a bad move."

What are we to make of a system, University of Chicago Law Professor Dallin Oakes wrote in 1970, that tolerates the following: "Where there has been one wrong, the defendant's, he will be punished, but where there have been two wrongs, the defendant's and the officer's, both will go free"?

The principle behind Miranda, that suspects should be protected from the heavy-handed tactics law enforcement officials might use to extract confessions, is, of course, sound. But a better way to fight police-state tactics—one that won't result in clearly guilty criminals being set free—is to punish severely officials who engage in beatings, unwarranted searchings, and the like.

Fine warns us, and who can dispute him after the New York subway case of Bernhard Goetz, that either we repair our judicial system, or numerous potential vigilantes in our midst "will take the law into their own hands to see that justice is done." In straightening out the judicial mess, Judge Fine's book is an excellent starting point.

—Tom Bethell

One Bugle, No Drums: The Marines at Chosin Reservoir. William B. Hopkins. *Algonquin, $15.95.* The Korean War is a big hole in most Americans' knowledge of history. In obscurity, it ranks right down there with the War of 1812 and the Spanish American War.

But this "police action," which lasted from 1950 to 1953, was a bloody business—nearly 55,000 Americans and almost a million Koreans and Chinese died on the harsh Asian peninsula. In winter, they were struck by howling winds and temperatures that dropped to 40 degrees below zero. In summer, they were overwhelmed by heat. In the desperate fighting around the Pusan Perimeter in 1950, U.S. forces suffered nearly as many casualties from heat exhaustion as from enemy fire.

But the Korean War was also, once the unprepared U.S. occupation forces in Japan and the hastily-raised conscript army were shaken down and hardened by combat, the occasion of some of the finest military feats in U.S. history.

Hopkins was the commanding officer of one of the three infantry regiments of the 1st Marine Division—the division military historians contend was one of the finest fighting forces, if not the finest ever, in the long annals of warfare.

Hopkins's battalion made its surprise attack in the middle of a snow storm on the Chinese 178th Regiment that held the hills over the Funchilin Pass. Although the Marines were outnumbered three to one, the Chinese regiment was nearly destroyed. That victory was crucial to the safe retreat of thousands of Marines and U.N. forces from the mountains near Chosin Reservoir.

If *One Bugle, No Drums* shows U.S. forces at their best, it also shows some of their leaders at their worst. The tactical brilliance of General Douglas MacArthur, the U.N. forces' commander, deserted him after his daring amphibious landing at Inchon. The North Korean army was destroyed, and South Korea's territory was restored, but MacArthur convinced himself and most of his subordinate Army commanders that there was no reason to believe that the Chinese would enter the war even if the U.N. forces drove all the way north to the Yalu River—despite growing evidence from displaced North Koreans that thousands of Chinese troops were hiding in the villages, forests, hills, and mines of that desolate country. At least 300,000 Chinese troops were already in North Korea when the Marines and the Army landed.

The Army commanders accepted MacArthur's assurances and neglected to put out adequate patrols and other security, which cost them tragically. Major General Oliver P. Smith, the commander of the Marine division, took his local intelligence seriously, which was one reason his division survived intact.

Although the Marines and Army were to attack from different directions through the mountains, their commanders couldn't communicate directly with each other, but had to go through headquarters in Tokyo—one of the main reasons we were defeated in North Korea. (And a lesson that was forgotten in the Grenada operation.)

Hopkins offers another major reason. Although he credits tactical air support of the ground forces as the most effective backup they had, he blames the indiscriminate bombing of "strategic" targets, many of which had no military value whatsoever, for turning the North Korean civilians against the U.N. forces. As a result, the North Koreans began to help the Chinese with their supply routes—even though the Chinese, who were ill equipped for the brutal winter and therefore desperate for food and shelter, had forced many Koreans out of their homes and villages. The rate of Chinese artillery fire increased substantially. Until then, says Hopkins, the Koreans have been willing sources of intelligence for the Americans. It was a lesson that should have been heeded 15 years later in Vietnam.

—James R. Dickenson

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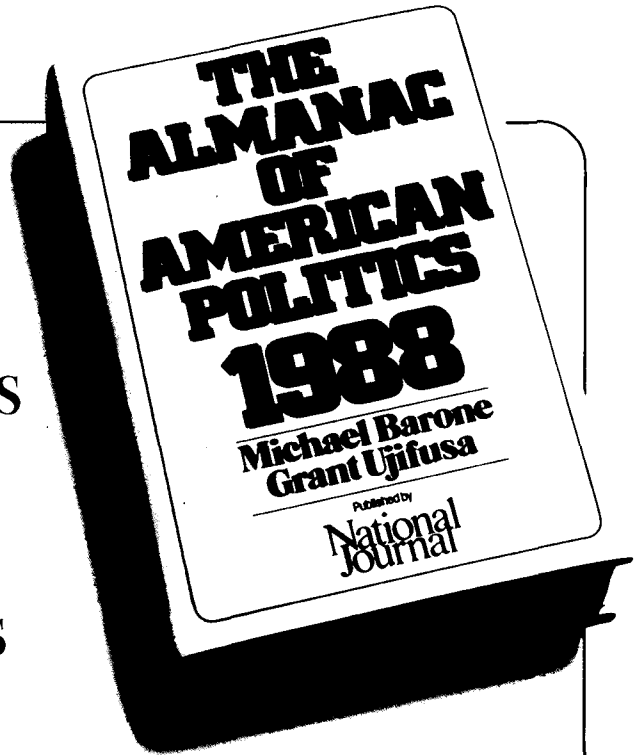

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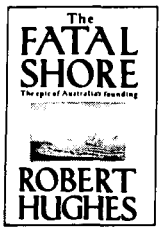

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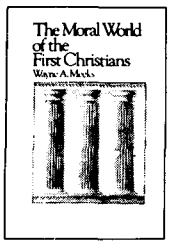

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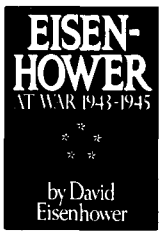

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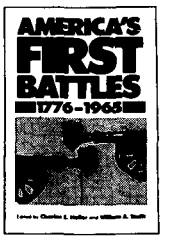

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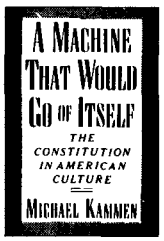

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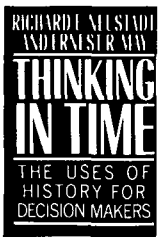
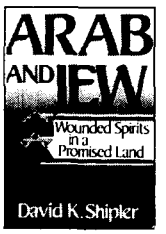


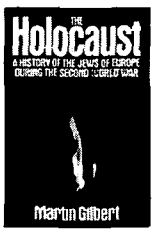
6205. $19.95/**$14.50**

3301. $17.95/**$14.95**

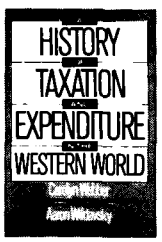


2402. $22.50/**$17.50**

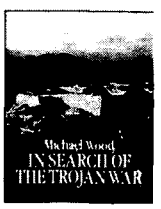
1859. $15.00/**$10.50**



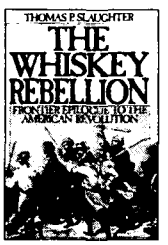
7666. $24.95/**$17.50**



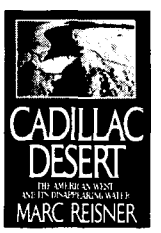
3129. $24.95/**$16.95**



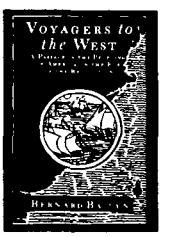
4879. $22.95/**$16.95**



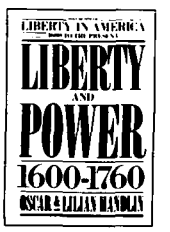
3160. $19.95/**$15.95**



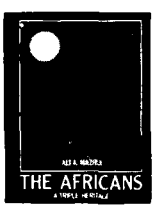
4127. $22.95/**$16.95**



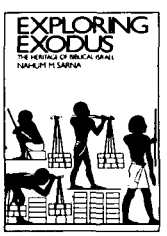
2279. $30.00/**$18.50**



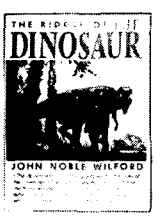
3285. $16.95/**$13.95**



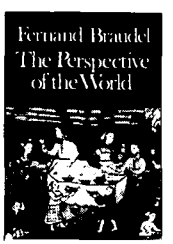
5181. $29.95/**$19.95**



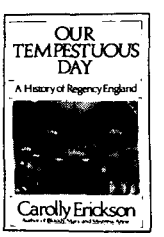
2246. $17.95/**$15.50**



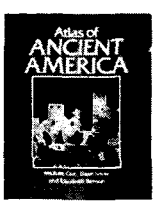
4390. $22.95/**$16.50**



1453. $35.00/**$18.50**



4416. $18.95/**$15.50**



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